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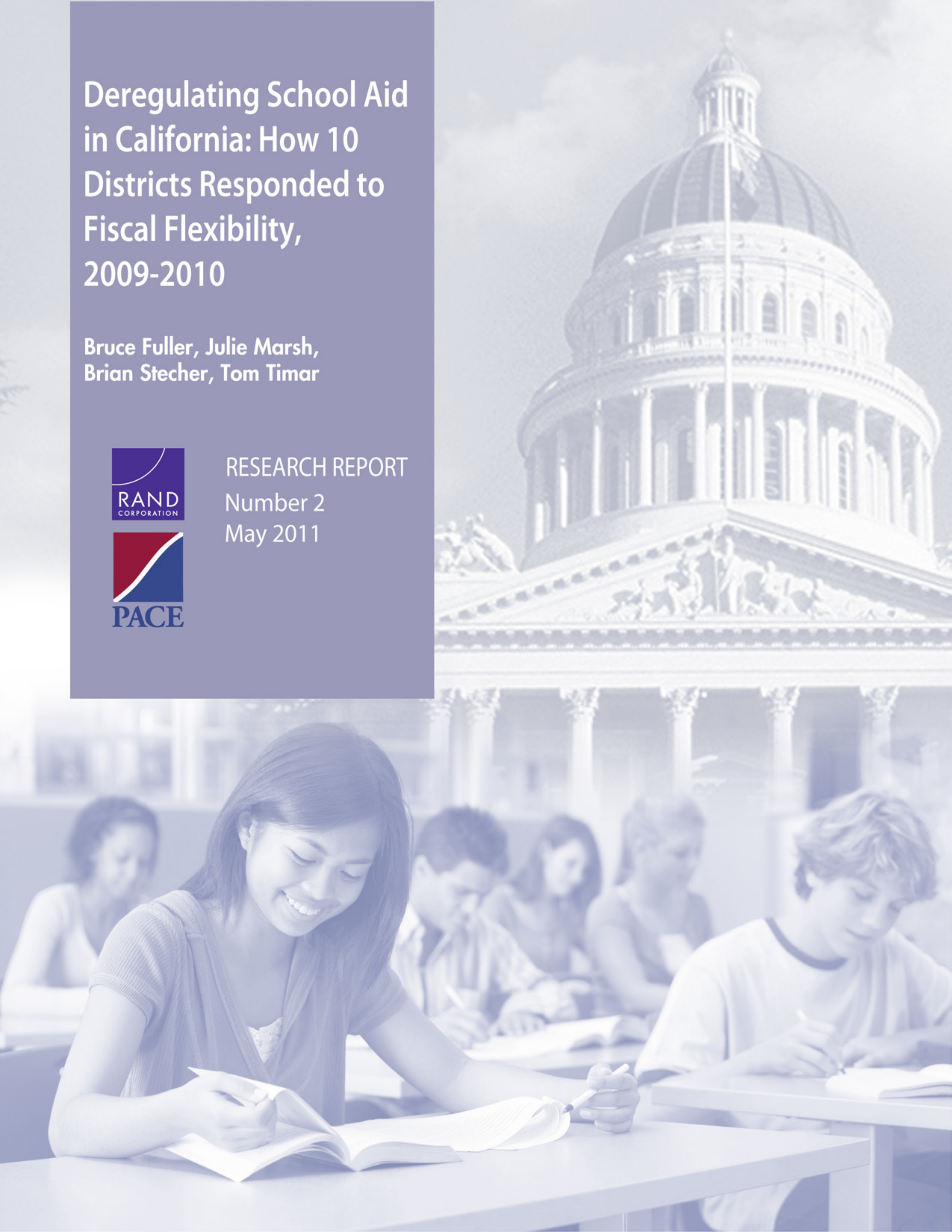

Deregulating School Aid in California: How 10 Districts Responded to Fiscal Flexibility, 2009-2010

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How 10 Districts Responded to Fiscal Flexibility, 2009-2010

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Executive Summary – Major Findings and Policy Implications

This report details how leaders in 10 California school districts are responding to the deregulation of $4.5 billion in education funding. Sacramento policymakers have freed local educators from the specific guidelines that previously regulated spending on 40 categorical-aid programs. These program funds became entirely flexible in 2009, and local school boards could decide how to allocate these resources.

This decentralization of fiscal authority is the latest episode in a four-decade-old debate in Sacramento over who is best qualified to allocate public dollars to improve student achievement. This study illuminates what happened to these 40 programs (referred to as Tier 3 resources subject to categorical flexibility) in 10 diverse districts, how budget decisions were made by district leaders, and what local factors explain the various ways in which districts responded to this flexibility. The study was conducted by researchers from the RAND Corporation; the University of California, Berkeley; the University of California, Davis; and San Diego State University.

Decentralizing school finance in tough economic times

The Tier 3 flexibility reform is one element in a much larger policy debate about financing California schools. The present approach is built on complex formulae that blend historical funding levels, court-mandated adjustments, and revenue-generation constraints set by Proposition 13, which was approved by voters 32 years ago. Few understand these complexities, yet they have major implications for the operation of districts and schools. In particular, when the state undergoes an economic downturn, school funding suffers. This occurred in 2007 and 2008 when spending on K-12 education fell from $39.7 billion to $30.7 billion (in inflation-adjusted 2010 dollars). Faced with a painful and persisting economic recession, California's governor and legislature were forced to cut education spending again in February 2009. This reduction included an unexpected 20 percent cut for many categorical-aid programs, including dollars for new textbooks, student transportation, school security, efforts for gifted and talented children, and adult education.

To soften the cuts, the governor urged legislators to combine $4.5 billion allocated for 40 separate programs, previously regulated by the legislature and the California Department of Education (CDE), into a single, general purpose funding stream. The largest of these programs were the Targeted Instructional Improvement Block Grant, Adult Education, Regional Occupational Centers and Programs, and School and Library Improvement Block Grant (see Appendix A for a full list). Local school boards and district leaders could then decide to continue these programs or "sweep" the revenues into their general funds to help them cover other costs, or they could reorder spending priorities. The legislature did not eliminate the programs from statute, but they granted districts the flexibility to use the funds in any manner approved by their local school board.

A Persisting Policy Debate

Few Sacramento observers would argue that the decentralization of fiscal authority for Tier 3 programs was a carefully designed policy experiment, as we will describe. However, equaling about 6 percent of the total education budget, this is the largest effort to date to reduce state government's regulatory role and enlarge the authority of local boards and superintendents to make their own allocation decisions.

Tier 3 flexibility is the latest skirmish in a long-standing battle over centralized versus localized control of educational expenditures. Historically, Sacramento policymakers have earmarked funds for particular categories of students (from disabled to gifted students) or school improvement strategies (smaller classes, teacher training, school-level decision-making), rather than letting local school boards make these decisions. Some legislators prefer that new education funding not be subject to collective bargaining, allocating money instead to specific programs rather than salary increases. Even after the Tier 3 deregulation reform, almost one-fourth of all school spending in California remains highly regulated by specific program guidelines.

To further complicate the picture, just as districts were beginning to understand and respond to the Tier 3 flexibility in the spring and summer of 2009, the federal government directed an additional $1.1 billion in Title I compensatory education dollars to California districts under the federal government's economic stimulus package. Suddenly, districts enjoyed both greater flexibility and a fresh infusion of federal categorical aid, albeit within the context of sharp and repeated cuts in overall state spending. This study was designed to learn how district leaders responded to this series of policy changes: new flexibility for Tier 3 state categorical aid, significant cuts in education revenues overall, and a temporary boost in federal categorical aid.

Research Methods

To explore how local districts and school-level leaders perceived and implemented Tier 3 flexibility, we conducted more than 90 in-depth interviews with leaders and other stakeholders in 10 diverse unified school districts in California, along with a dozen interviews with policy leaders in Sacramento. The districts were split evenly between north and south, and they varied with respect to enrollment, fiscal health, and the share of their budgets used for administrative personnel. Our initial report on statewide revenue and expenditure patterns, distributed in January 2011, detailed which districts and students benefited most from Tier 3 spending, how these dollars have been spent, and how district leaders allocated Tier 3 funds in conjunction with new federal stimulus dollars.

To frame the local interviews, we considered the rationales of policymakers when they enacted this policy shift. There were several competing hypotheses. Some policymakers speculated that deregulation would further widen disparities in school finance at the local level as vocal constituencies pushed for a greater share of resources. Others argued that deregulation of previously earmarked funds would place these dollars on the bargaining table, protecting or boosting teacher benefits with little attention to improving teaching and learning. Proponents of decentralizing school finance claimed that increased flexibility would allow districts to better align resources to local priorities, direct more dollars toward instructional gains, and expand principals' authority to build a stronger teaching staff. Yet, little evidence was available to back these competing claims, even though Sacramento leaders had consolidated and deregulated categorical aid in the past.

In early 2010, we set out to examine these competing hypotheses and gather evidence about how local educators respond to fiscal flexibility and the forces that shape resource allocation decisions within district offices and schools. With funding from three foundations, the research initiative, *Deregulating School Aid in California*, sought to answer a set of core questions related to implementation. The study's specific research questions are:

1. What did district leaders do with the newly flexible Tier 3 funds?

2. How did district leaders make these allocation decisions, and who was involved?

3. What were the reported local consequences of these allocation decisions?

4. What prior conditions and concurrent factors shaped budget decisions of district leaders?

5. How did federal Title I stimulus funds interact with decisions about Tier 3 flexibility?

6. What are statewide revenue and spending patterns for Tier 3 and stimulus funds?

   a. Which kinds of districts, schools, and students benefit most from the flow of deregulated Tier 3 categorical aid and federal stimulus dollars?

   b. Do districts (and schools) with larger shares of Tier 3 aid and federal stimulus funding (as fractions of their overall budgets) spend relatively more on instruction and teaching staff, compared with districts that benefit less from these sources?

This report addresses the initial five research questions. The companion report distributed in January 2011 focused on question six. An upcoming statewide survey of district leaders will further examine key issues identified in the present report and develop statewide evidence of the implementation of Tier 3 flexibility.

Findings

Tier 3 funding went into effect in early 2009 at the same time that local districts were coping with other policy shocks: sharp cutbacks in overall funding, leading to teacher layoffs and rising class sizes, along with fresh stimulus dollars from Washington.

Our in-depth work inside districts focused on Tier 3 funding, tracking spending patterns of specific programs. We asked district leaders how they made budget decisions, who was involved in the decisions, and what consequences were observed in local communities. At the same time, we learned much about local contexts, differing leadership approaches inside districts, and the interplay between state and federal categorical aid.

We sorted our findings into three major areas, corresponding to the research questions.

How did districts respond to Tier 3 flexibility? What happened to spending levels for core Tier 3 programs?

District leaders' perceptions of Tier 3 flexibility varied significantly. Almost all district leaders welcomed the flexible dollars now contained in the Tier 3 funding stream, praising the governor and legislator for enacting this change. However, most superintendents and senior district staff viewed the change as an expedient trade-off between sharp overall budget cuts (including a 20 percent cut to Tier 3 categorical aid) and a modicum of increased flexibility for a relatively small portion (about 7 percent) of their total district budget.[1] Few superintendents or budget deputies said they believed the Tier 3 policy was a carefully thought-out attempt in Sacramento to decentralize spending authority. In fact, a significant share of district leaders remained worried that lawmakers would take back this flexibility when the state budget picture improves. Furthermore, most respondents would prefer greater flexibility over the major categorical aid programs that were left out of Tier 3. These programs include class-size reduction and Economic Impact Aid. Others worried that deregulation would put certain types of students and programs at risk.

Overall, the 10 district responses to Tier 3 flexibility followed at least one of four patterns as they reacted to these interwoven policy shifts:

Retrenchment and backfilling against cuts. Leaders in all 10 districts "swept-up" at least of portion of their

Tier 3 dollars and used these revenues to help balance the general fund. This resulted in small to severe reductions in Tier 3 program services.

Efficiency seeking and reassessing of spending priorities. In keeping with local priorities, some district leaders selectively cut back Tier 3 programs. We rarely saw district leaders use hard evidence to weigh the relative effectiveness of programs. These decisions had to be made quickly and leaders who understood the local context often made choices that were consistent with policies that would be politically feasible.

Reallocating dollars to advance new initiatives. A minority of the 10 district superintendents reported leveraging Tier 3 dollars with other resources to create or sustain instructional improvement efforts or other new programs.

Sharing flexibility with school principals and site councils. Most district leaders did not share Tier 3 flexibility with school principals, except in districts with strong traditions of site-based budgeting. District leaders had to weigh the desirability of shared authority against the pressing need to balance the district budget and minimize teacher layoffs.

Under Tier 3 flexibility, eight of the 10 case study districts reduced adult education programs, often sharply. Spending on core instructional materials, including textbooks, was also reduced in the majority of districts. Special instructional activities for gifted and talented students (GATE) were pared-back or eliminated in six of 10 case study districts.

Cuts were made in smaller yet consequential Tier 3 programs as well. This includes programs where the legislature or the courts mandated district engagement, such as support for adolescents at risk of not passing the high school exit exam. We observed that districts were either eliminating or reducing expenditures on a number of small categorical programs. While some districts have attempted to maintain various programs in the first year of budget reductions, they foresee further cuts in coming years.

The infusion of federal stimulus dollars played a role in district decision-making. Some districts, channeling fresh stimulus dollars to schools, chose to sweep existing Tier 3 aid from these same schools, in an effort to balance the district general fund. Tier 3 dollars remained a small portion of overall district budgets, but they did spur reflection upon local priorities and creative reallocations by some district leaders and local stakeholders.

District budget cuts and Tier 3 reallocations led to predictable consequences, including job losses within affected programs and strained relations with teacher unions, parent groups, and other stakeholders. There were also reports of bargaining with principals over cuts and how the shifting mix of categorical aid was to be managed at district and school levels. We heard of deepening concerns over how district resources could be sustained, and whether short-term solvency was coming at the cost of eliminating politically weak Tier 3 programs previously protected by state regulation. In some cases, fees for adult education courses were raised to offset cuts in Tier 3 support, and funding for GATE and supplemental instructional programs was provided by parents and school foundations.

How did district decision-making unfold? Which stakeholders were involved in assessing budget priorities, especially with regard to Tier 3 programs?

Although many districts solicited input from various stakeholders to determine overall budget priorities, most superintendents and senior staff controlled budget decisions around Tier 3 funds. Local board members and superintendents were forced to react quickly to Tier 3 flexibility in the mid-2009 school-year. Budget adjustments and possible layoff notifications had to be approved by local school boards by mid-March, given statutory requirements.[2] So, bringing many stakeholders into the decision-making process was viewed as risky. Budget processes became somewhat more public during the 2009-10 school-year, as district leaders gained some breathing room.

Yet key stakeholders, especially board members, teacher unions, and parent groups, remained focused on minimizing layoffs and keeping class sizes from rising dramatically. In a few cases we heard of parents organizing around select Tier 3 programs, including the shrinking of GATE activities and cuts in counseling staff. Some adult-education directors organized efforts to resist severe cuts. Yet adult education was cut in eight of the 10 districts, where it was typically viewed as peripheral to core district priorities or as a service that could be picked-up by local community colleges.

Another common feature of decision-making regarding Tier 3 funding was that principals and school-level leaders were not involved in seven of the 10 case study districts. Exceptions did arise, especially in districts with established histories of site-based budgeting, but they were rare.

District leaders commonly relied on two sources of information about the state revenue picture and the Tier 3 implementation, in particular. School Services of California (SSCA), a private firm that contracts with districts, was the most frequently mentioned source of information regarding the meaning and implementation of Tier 3 flexibility. District leaders also relied on information from their respective county office of education, given this agency's fiscal oversight responsibility.

Most case study districts had entered Program Improvement status, meaning that students were not meeting federal growth targets under No Child Left Behind. Consequently, county education offices were helping several districts to improve test scores, while monitoring budget decisions, as well. Finally, guidance regarding Tier 3 was provided by the state Department of Education, but districts reported that CDE was less informative or proactive than SSCA.

What prior conditions and local factors help to explain budget decisions and varying responses to Tier 3 flexibility among districts?

Given the demographic and organizational diversity among the 10 case-study districts, it is not surprising that we observed considerable variability in district leader responses to Tier 3 flexibility. Yet, we also identified some prior conditions and concurrent factors that were related to district decisions regarding flexibility. Our upcoming statewide survey aims to establish whether these factors generalize to other districts beyond the 10 in this case-study.

Influential conditions that existed prior to the February 2009 enactment of Tier 3 flexibility included student achievement levels; commitments to instructional improvement efforts; budget reserves and relative fiscal health; district size (enrollments and organizational complexity); and the stability of district leadership.

Leaders in all 10 districts faced pressure to avoid laying-off teachers. This led to the sweeping-up of Tier 3 revenues to relieve concern over balancing the general fund. In this sense, declining fiscal health and shrinking cash reserves (to below statutory minimums) made a huge difference in district responses. However, we could not discern any consistent pattern in budget decision-making when we compared fiscally healthy with relatively unhealthy districts.

On the other hand, concurrent factors did influence district decisions patterns. For example, instability in leadership and the innovative presence of a new superintendent played an influential role in budget decision-making in three of our districts. In addition, four sets of circumstances seemed to influence district actions in specific cases. These conditions included: the fact that Tier 3 came with mid-year budget cuts, ongoing fiscal uncertainty, and a sense of urgency to implement fiscal changes; the perception that legal mandates or persisting student needs required that some Tier 3 programs be continued; the ways in which Tier 3 programs were intertwined with labor contracts; and the influence of local interest groups and community organizing.

Conclusions and Policy Implications

Overall, what we heard and learned from district leaders and local stakeholders provides some helpful insights for Sacramento policymakers and districts throughout the state. While still preliminary, our interviews revealed a few themes that should be of immediate interest to policymakers. These themes include the following:

Tier 3 flexibility was not a well-articulated policy. The administrators in the 10 districts we studied had different interpretations of the regulations that applied to the use and reporting of Tier 3 funds. These differences in perception occurred, in part, because the communication from CDE was viewed by some as inadequate. Another factor that may have contributed to confusion was the variety of reasons policymakers themselves expressed for granting this flexibility.

Uncertainty around Tier 3 flexibility led districts to be cautious. Districts felt some uncertainty about their options because the legislation granting flexibility is only temporary; unless additional action is taken by the legislature, the flexibility expires in 2013. Additional uncertainty came from the fact that the legislature reduced the total amount of funds available for the 40 Tier 3 programs by 15 percent in 2008-09 and 20 percent in subsequent years. Many administrators could not discern the aims of the Tier 3 reform, nor see any rationale for which programs were included in Tier 3 as opposed to those retained as categorical. This confusion stemmed from a lack of clarity in communication from the legislature and CDE and the fact that the bundle of 40 Tier 3 programs was assembled quickly with little public or private discussion. This unclear guidance may have made some administrators cautious about using the new flexibility to make dramatic changes in programs. The general atmosphere was one of crisis and retrenchment, and administrators were focused on trying to preserve programs more than on developing new ones.

The timing and technical complexity of the Tier 3 flexibility gave superintendents and chief financial officers a privileged position in decision-making. In nine of the 10 districts we visited, the central office "swept" the Tier 3 funds into the general fund, and the decisions about their use were made centrally. Because of the need to act quickly, superintendents played a central role in decision-making. Similarly, complying with the guidelines required understanding of the budgeting and reporting system, so the chief financial administrator was a key player in decisions.

District leaders often remain committed to the goals of Tier 3 programs. One fear with flexibility is that some of the program goals will be abandoned when funding is no longer attached to them. While we did not ask about the goals associated with all 40 categorical programs that were part of Tier 3, the administrators did speak of their continued commitment to the four major programs we inquired about—Gifted and Talented Education, professional development, Targeted Instructional Improvement Block Grant, and Adult Education.

Section 1
Deregulating School Aid in California: A Persisting Policy Discussion

Faced with a third year of pallid state revenues, California's governor and legislature were forced in early 2009 to make additional cuts to the education budget. To ease the fiscal pain felt by local districts and schools, Sacramento policymakers agreed to consolidate and largely deregulate 40 discrete educational programs, a significant portion of what is called categorical aid. These programs, totaling more than $4.5 billion in outlays to local school districts, were now designated as Tier 3 programs, subject to flexibility, with most regulatory strings removed. Total spending directed through these now-unrestricted program funds were reduced during the 2008-09 fiscal year by about 15 percent, and by 20 percent in subsequent school-years. Sacramento policymakers appeared to be trading less state funding for greater local control over budget decisions by school boards and district leaders.

When this policy shift toward local flexibility was enacted, little was known about how district and school leaders would respond. Some speculated that deregulation would further widen disparities in school finance at the local level as more vocal constituencies pushed for a greater share of resources. Others argued that deregulation of previously earmarked funds would place these dollars on the bargaining table, protecting or boosting teacher benefits with little attention to reform. Proponents of decentralizing school finance claimed that increased flexibility would allow districts to better align resources to local priorities, direct more dollars toward instructional gains, and expand principals' authority to build stronger teaching staffs. Yet little evidence was available to back these competing claims, despite the fact that Sacramento has consolidated and deregulated categorical aid in the past, as reviewed below. At the same moment, in the spring of 2009, significant federal stimulus dollars arrived to California schools.

Purpose of the DSAC Study

In early 2010, researchers at the RAND Corporation, the University of California at Berkeley and Davis, and San Diego State University set out to examine these competing hypotheses, build evidence on how local educators respond to fiscal flexibility, and better understand the forces that shape resource allocation decisions within district offices and schools. With funding from the three foundations, the research initiative, *Deregulating School Aid in California* (DSAC), sought to answer a set of core questions related to the implementation of the Tier 3 reform. Our research team also asked questions that could improve the implementation of the Tier 3 initiative and the persisting discussion, both in California and nationwide, over how to balance state-level spending priorities with greater local control over school dollars. The study's specific research questions include:

1. What did district leaders do with the newly flexible Tier 3 funds?
2. How did district leaders make these allocation decisions and who was involved in decision-making?
3. What were the reported local consequences of these allocation decisions?
4. What prior conditions and concurrent factors shaped budget decisions of district leaders?
5. How did federal Title I stimulus funds under the American Recovery and Reinvestment Act (ARRA) interact with decisions about Tier 3 flexibility?
6. What are the statewide revenue and expenditure patterns for Tier 3 and stimulus funds?

a. Which kinds of districts, schools, and students benefit most from the flow of deregulated Tier 3 categorical aid and federal stimulus dollars?

b. Do districts (and schools) with larger shares of Tier 3 aid and federal stimulus funding (as fractions of their overall budgets) spend relatively more on instruction and teaching staff, compared with those that benefit less from these sources?

This report addresses the first five research questions. The sixth question is informed by our initial report released in December 2010, detailing statewide revenue and spending patterns related to Tier 3 and stimulus dollars (Imazeki, 2011). The present report describes what we discovered on the basis of interviews conducted in 10 districts over the first half of 2010. Building on the findings from these reports, a third report will describe findings from a statewide survey of district leaders.

In addition, this report details how district leaders, principals, and local stakeholders across the 10 diverse districts interpreted and responded to the Tier 3 reform. The story that we heard speaks to how district leaders aimed to cover cuts in their overall budget, balance the general fund, and pursue affordable priorities that could be sustained with remaining state categorical aid and federal Title I dollars.

The study will not address one bottom-line question: to what extent are Tier 3 categorical-aid dollars spent effectively? Ideally, policymakers would learn whether local decision-making leads to more cost-effective allocations of state education funds. After all, this is the policy theory advanced by advocates of fiscal deregulation. Sacramento policymakers do occasionally support research about the impact of major programs on schools and students, including class-size reduction and targeted funding for low-achieving students or schools (Harr, Parrish, Socias, & Gubbins, 2007; O'Day & Bitter, 2003; Stecher & Bohrnstedt, 2000). But little evidence exists to clarify whether budget allocations made by district leaders result in stronger outcomes for pupils, compared with the allocation decisions made by Sacramento policymakers. This question is beyond the scope of the present study.

Methods

As detailed in Section 3, we employed qualitative methods to understand how district and school leaders were interpreting and responding to fiscal deregulation. First, in the spring of the 2009-10 school-year, we conducted more than ninety in-depth interviews with district, school, and community leaders in 10 case study districts. These districts were selected to provide variation across four key variables: relative fiscal health, district size, concentration of administrative staff in the central office, and geographic location. The interviews, together with the tracking of categorical-aid budgets and other documents, yield a deep look into allocation decisions, the players and dynamics of the decision-making process, the reported effects and factors affecting decisions around newly flexible Tier 3 funds.

Second, from mid-September to early October of 2010, we conducted twelve interviews with legislative staff members and leaders of state education associations who were either involved in the design of the Tier 3 reform, or have been historically influential in school finance policy. These interviews helped to illuminate the elements of the Tier 3 reform, the multiple rationales advanced, and the prevailing views of early implementation.

Note that the sample of 10 districts was not randomly selected nor selected to be representative of all California districts. The findings detailed in this report cannot be generalized to the state. They do however highlight variability in district responses to fiscal flexibility, identifying shared patterns, and pointing to local conditions that drive decision-making. The statewide survey of district leaders planned for 2011 will yield generalizable evidence.

Organization of the Report

In Section 2, we provide some historical context for Tier 3 reform by describing previous efforts by the legislature to balance state-level priorities with local flexibility. We then describe our research methods in Section 3, including how we sampled diverse districts, conducted in-depth interviews with district leaders and other local actors, and tracked spending trends in these districts. Section 4 reports how districts interpreted Tier 3 flexibility and allocated these newly flexible funds. We then provide information about districts' decision-making processes in Section 5, along with the reported consequences of the actions taken by district leaders in Section 6. Next we analyze in depth the factors and conditions explaining overall patterns observed in district responses to the confluence of economic and fiscal events in Section 7. We conclude in Section 8 with a summary of findings, implications for refining policy around deregulation, and the next steps in our overall study.

Section 2
Situating Fiscal Deregulation and Tier 3 Flexibility: Multiple Policy Aims in Tough Economic Times

This section includes a brief history of prior efforts to deregulate or simplify school finance in California, the rationale for this most recent episode, how the Tier 3 reform fits into the wider policy conversation around fiscal decentralization, and the strained economic context into which Tier 3 flexibility was enacted.

A Persisting Debate: State Interests and Local Flexibility

Consolidating two-thirds of all categorical-aid programs (representing 6 percent of all state education funding) into Tier 3 funds stemmed, in part, from the four-decade-old debate over the extent to which Sacramento should tie dollars and rules to certain categories of students or reforms.[3] On the one hand, state-level policymakers, eager to raise student achievement, argue that shared statewide interests are expressed when they earmark dollars to serve particular students or reform models. Policymakers create programs to lift students with disabilities, gifted students, or those falling behind in reading proficiency. Over the years, Sacramento policymakers have regulated program efforts to provide adequate numbers of textbooks that are aligned with standards, reduce class sizes, and expand preschool and after-school efforts. Each well-meaning program is founded on the assumption that targeting dollars from the state level will yield stronger, more equitable results for California's students than allowing local school boards to make these allocation decisions.

The competing argument is that district or school-level educators are better positioned to understand the barriers that constrain student performance and can thus target dollars to address these local problems. These advocates of deregulation emphasize that administrative staff could be reduced in Sacramento, and state education authorities could move away from their focus on compliance to helping districts improve their instructional programs. Defenders of state-crafted categorical aid push back arguing that without protected dollars for low-achieving students or specific reform models, local teacher unions will lobby for more cash on the bargaining table and ignore reform efforts.

The Tier 3 reform (SBX3-4; Chapter 12, *Statutes of 2009*) enacted in 2009 was not the first time that Sacramento deregulated certain categorical-aid programs, granting districts greater fiscal control. Table 2.1 details earlier instances, first enacted by the legislature a decade after state and federal policymakers began to target dollars and rules on specific categories of students or reform strategies in the 1960s. Between 1980 and 2000, state categorical aid per pupil increased by 165 percent, while discretionary dollars per pupil shrank by almost eight percent (Timar, 2007). Assembly Bill 825 in 2004 consolidated thematically related programs, those relating to teacher preparation and in-service development, into unified, less-regulated block grants. This slightly decreased the categorical share of state spending on K-12 education.

A variety of analysts and groups have urged moving the pendulum back toward local fiscal control. Over the past two decades the legislature's budget analyst has recommended greater flexibility for local school boards and asserted that such efforts would not weaken state-level budget priorities (Legislative Analyst's Office, 1993; 2004). Rhetoric in Sacramento has grown louder over moving the state Department of Education away from a "compliance mentality" toward an approach that encourages districts to focus on improving instruction and lifting test scores. The Stanford University-led *Getting Down to Facts* investigation

Table 2.1 Earlier consolidation of California categorical-aid programs.

Year	Statute	Change to California's School Finance System
1979	AB 8 (Chapter 282)	Required evaluation of all categorical programs, established sunset provisions if the legislature did not vote to extend.
1981	AB 777 (Chapter 100)	Permitted districts to coordinate spending from 11 categorical programs.
1992	AB 979 (Chapter 587)	Consolidated 32 categorical programs into a single "mega-item." Regulations remained in place, but districts could move up to 15% of funding between included programs.
2004	AB 825 (Chapter 871)	Consolidated 21 categorical programs into 6 thematic block grants.
2009	SBX3-4 (Chapter 12)	Consolidated 40 "Tier 3" categorical programs into 1 "flex-item." Permitted districts to shift all "flex-item" funding into their unrestricted general fund.

concluded in 2007 that a sizeable share of categorical-aid programs could be deregulated. These results were based on a statewide survey of principals that revealed inordinate amounts of time spent on monitoring spending at the school level and complying with rules and regulations that inhibit district and school leaders from improving teaching and learning (Loeb, Bryk, & Hanushek, 2007).

While Tier 3 reform is not the first state effort to decentralize fiscal control, it is the largest. Known in some circles as *Ed-Flex*, Tier 3 reform collapses two-thirds of the 60 state categorical programs and involves about one-tenth of all public school funding through 2012. The remaining twenty categorical programs were assigned either Tier 1 or Tier 2 status. Tier 1 programs were required to maintain existing program boundaries and guiding regulations. Tier 2 programs were provided limited flexibility in program spending. This report focuses only on the Tier 3 programs. Table 2.2 lists selected Tier 1 and Tier 2 programs, along with spending levels, for still-regulated statewide programs.

Prior to the Tier 3 reform, the California Department of Education monitored and regulated over 60 specific educational programs, totaling $19.1 billion in state support (LAO, 2010). State categorical aid currently represents about one-third of all state spending on K-12 education, up from about 10 percent in 1980. In the 1990s, new funding streams targeted to staff professional development and initiatives outlined in the Public Schools Accountability Act of 1998 contributed to a $3 billion increase in categorical aid funding between 1998-99 and 2000-01 (from $8.6 billion to $11.7 billion) (Timar, 2007). The 2000s saw the number of state categorical programs decrease, in part due to the state's budget deficit. But the share of state spending on K-12 funding dedicated to categorical aid remained significant, ranging between 35 and 44 percent. Figure 2.1 displays the number of state categorical aid programs funded over the past decade, with deregulated Tier 3 programs counted as a single category starting in 2009.

As the governor and legislature granted districts Tier 3 categorical flexibility (February 2009), they enacted collateral policy and spending changes as well. Departing from prior policy, the guiding budget bill (SBX3-4) allowed districts to capture year-end balances from most categorical-aid accounts, amounting to about

$2.2 billion, and to use these dollars in any way they saw fit. In addition, when Sacramento pared back spending on Tier 3 programs by 20 percent, policymakers lifted accompanying mandates, such as the earlier schedule for buying new textbooks. The elimination of up to five days of the school-year and the reduction in cash reserves were also permitted under the 2008-09 fiscal deregulation policies.

The Tier 3 Reform and Multiple Policy Aims

Before the Tier 3 programs were granted flexibility they were quite variable in purpose, scope, and spending level. A sampling of the earlier programs appears in Table 2.3. They ranged from sizeable initiatives, such as the $1.1 billion Targeted Instructional Materials Block Grant and $800 million for adult education courses, to smaller yet significant efforts, including dollars earmarked for Gifted and Talented Education (GATE) programs. Overall, the policy leaders we interviewed could identify no common underlying purpose or criteria for consolidating the 40 programs included in Tier 3. Some of these programs were also smaller block grants, consolidated under earlier legislation. (See Appendix A for a full list of the Tier 3 programs and funding levels.)

As we interviewed legislative staff and education association leaders in Sacramento, we heard of several policy aims tied to the Tier 3 reform (see box 2.1 for summary). Political expediency was certainly at play as the governor and legislative leaders scrambled to craft a mid-year budget fix in early 2009. According to some, the governor and Republican leaders aimed to advance local flexibility in exchange for supporting a new budget plan. Other respondents suggested that policymakers expressed additional motivations via the Tier 3 reform. Many reported that the flexibility resulting from the Tier 3 reform was not a direct attempt by policymakers to extend districts' autonomy over budgets. Instead, flexibility helped districts survive financially in the face of ongoing budget cuts and reduce staff more quickly mid-year, for example, by cutting adult education programs.

Other Sacramento policy leaders argued that Tier 3 cuts and flexibility facilitated administrative savings by allowing districts to eliminate compliance functions and staff. Collateral elimination of textbook adoption requirements gave districts one place to save money, and move these dollars into the general fund. We also heard that the sharp cuts in Tier 3 programs served to protect basic revenue limits (foundation funding for all districts) from taking an even bigger budgetary reduction. Recognizing these competing policy aims may help to explain the ways in which district leaders have come to understand and utilize their newly found flexibility under the Tier 3 reform.

No policy leader that we interviewed in Sacramento viewed the Tier 3 reform as a carefully crafted experiment in fiscal decentralization. Instead, our interviews suggest that this policy was put together quickly, largely within the governor's office, with little input via normal legislative hearings or public vetting. Perhaps as a result, the programs placed into the Tier 3 bundle are not conceptually related. Regardless of the motivation and the process, with the passage of SBX3-4 the governor and legislature set in motion the deregulation of $4.5 billion in previously regulated categorical aid.

The DSAC study aims to outline which local districts benefit from this funding, how district leaders and local stakeholders responded to new-found flexibility under stringent fiscal conditions, and what were the reported effects on programs and schools.

Economic and Policy Context

The debate over how to allocate education dollars more effectively—and which level of government is best po-

Table 2.2. Selected Tier 1 and Tier 2 categorical programs.

Categorical aid programs	Mandate	Statewide funding level (in millions) for 2009-10
Special Education (Tier 1)	Provides special education funding based on special education local plan area (SELPA) average daily attendance.	$2,969.1
Economic Impact Aid (Tier 1)	Supports educational services for economically disadvantaged students and bilingual education services for English learners.	$994.3
After School Safety and Education (Tier 2)	Provides local after school education and enrichment programs for kindergarten through ninth grade students, through partnerships between schools and local community resources.	$547.0
Pupil Transportation (Tier 1)	Provides reimbursement for the cost of transporting students from home to school.	$491.1
Quality Education Investment Act (Tier 1)	Supports specified activities to improve academic instruction and students' academic achievement.	$373.0
Child Nutrition (Tier 2)	Provides funding for school meal preparation.	$134.0

Figure 2.1. Change in the number of state categorical programs, 1998-99 through 2010-11.

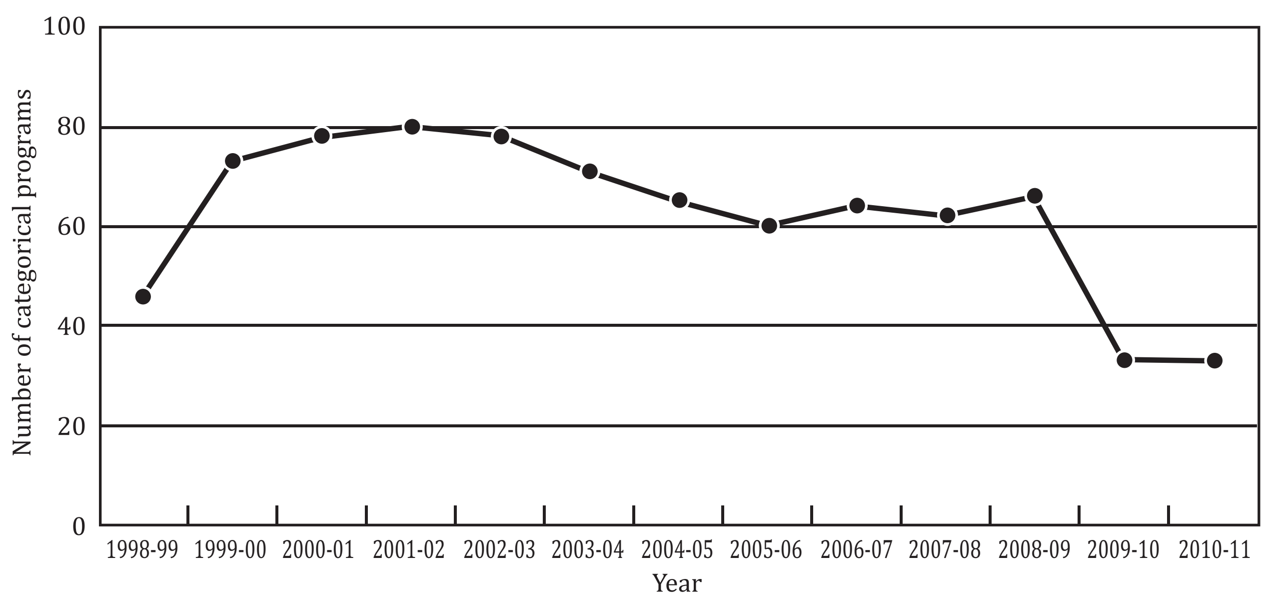


Table 2.3. Selected categorical aid programs consolidated into Tier 3.

Categorical aid program	Prior mandate	Statewide funding level (in millions) for 2009-10
Targeted Instructional Improvement Block Grant	Satisfy any court-ordered desegregation requirements, then address the costs of voluntary desegregation programs and provide instructional improvement for low-achieving students.	$855.2
Adult Education	Provide educational opportunities and support services for adults.	$634.8
School and Library Improvement Block Grant	Provide library resources (including books, audio-visual materials) and support improvement to instruction, services, school environment, and organization.	$370.0
Regional Occupational Training	Support educational activities designed to increase self-sufficiency by providing job training and helping students to secure employment.	$384.7
Instructional Materials Funding Realignment Program	Provide state-adopted, standards-aligned instructional materials.	$333.7
Professional Development Block Grant	Provide high-quality professional development for teachers and aides, as well as release time for attending professional development.	$218.4
Class Size Reduction for Grade 9	Support class size reduction in grade 9 in a required English course and a mathematics, science, or social studies course that counts toward graduation requirements.	$78.9
Pupil Retention Block Grant	Support remedial programs that respond to the needs of all students (including elementary reading, algebra instruction, dropout prevention, counseling).	$76.7
Gifted And Talented Education (GATE) programs	Support educational opportunities for high-achieving and underachieving students identified as gifted.	$50.9

Box 2.1 – Sacramento policy leaders advance multiple aims for fiscal deregulation

Political expediency. Fiscal decentralization has been a longstanding Republican goal, so reducing Sacramento's centralized control over local education helped deliver the votes needed to pass the budget. To reduce pushback from some constituencies, categorical programs perceived to be politically strong were excluded from Tier 3.

District fiscal survival. Fiscal decentralization provided new options to local districts facing further budget cuts. Freeing up categorical aid was intended to help districts remain solvent, and facilitate mid-year staffing cuts.

Administrative savings. Fiscal decentralization meant that compliance and oversight functions could be eliminated at the district and state level. Cuts to categorical aid, described as anticipated administrative savings, helped close the gap in the state budget.

sitioned to make these decisions—has grown more heated as larger shares of financing have come from the federal and state governments rather than from local property tax revenue. Just one-fourth of total school funding in California now comes from local property taxes. Another seven to eight percent comes from a variety of parcel taxes and local fees (EdSource, 2009). Furthermore, only the legislature and governor can raise or lower the "revenue limit" of any local school district under the constraints set by the state Supreme Court's Serrano decision in 1972. Contemporary contextual forces further contribute to the fiscal decentralization debate, starting with the declining capacity of state government to fund and to regulate the panoply of existing education programs. The fact that California's school finance system is "impossible to comprehend," even among policy analysts and scholars (Rose, Sonstelie, & Weston, 2010), further complicates efforts to change the allocation of resources.

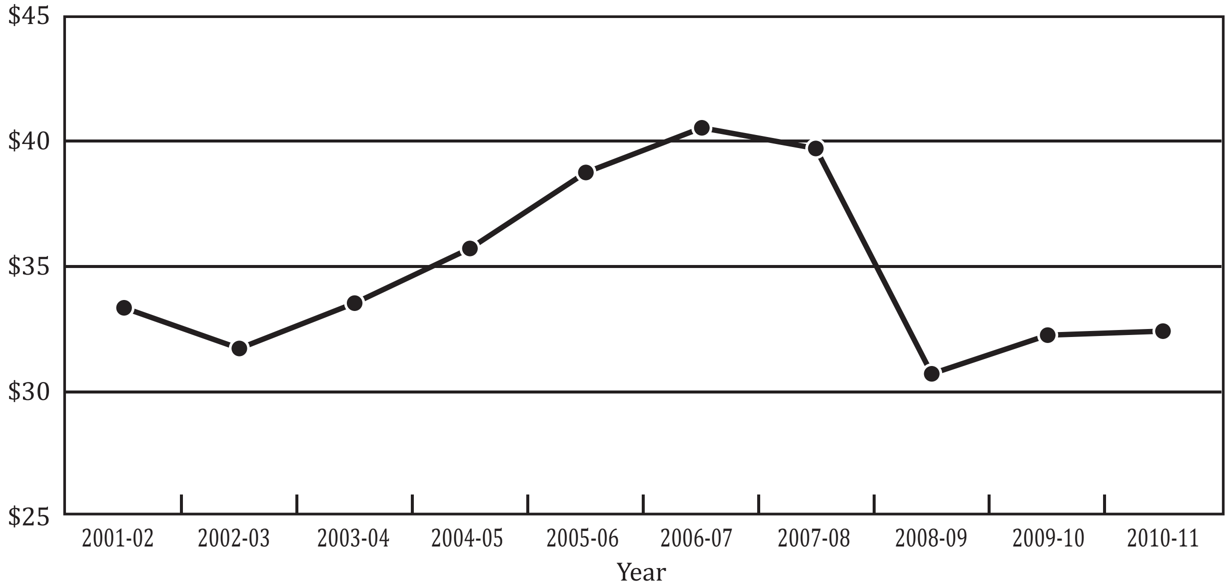
Economic recession, declining state revenues. The Tier 3 reform was approved in February 2009 after California's economy had been in recession for two full years. The state's jobless rate, which stood at a seasonally adjusted five percent in March of 2007, rose to 12 percent by November of 2009. As economic activity flagged statewide, tax revenues coming to Sacramento also fell precipitously. In 2007, Sacramento's general fund spending level reached a high mark of $103 billion in yearly outlays. This fell to $86 billion in the 2009-10 fiscal year. The home mortgage crisis further depressed the assessed value of residential property, limiting the portion of resources generated for schools via local property taxes.

Deregulating as budget cuts mount. The Tier 3 reform came midway through a second year of sharp cutbacks in state support of public schools. State and local spending on local schools during the 2010-11 fiscal year will be 12 to 18 percent below appropriation levels in 2007-08 (depending on assumptions about inflation adjustments and how federal stimulus dollars are factored in). Figure 2.2 shows historical state spending on schools. Significant increases were made between 2001-02 and 2006-07. But as the recession hit California, spending dropped by almost one-quarter in one year. During the same period displayed in Figure 2.2, enrollments in elementary and secondary schools grew to a mid-decade high of 6.3 million, falling toward 6.2 million in 2009-10.

Such was the dismal fiscal climate facing the state in 2009. In the middle of the fiscal year, school district leaders were again struggling to balance their budgets and minimize teacher layoffs.

Influx of federal stimulus dollars. The Tier 3 reform occurred at the very moment that new federal stimulus dollars arrived to backfill the deteriorating fiscal condition of California's schools. New resources included al-

Figure 2.2. California spending on K-12 education, 2001-2011 (in billions of inflation-adjusted 2010 dollars).



most $5 billion in economic stabilization funds, which the governor and legislature folded into the basic (revenue limit) allocations to districts. In addition, Washington earmarked about $1.1 billion in new compensatory education Title I dollars for California schools, and $1.3 million for special education programs.

As with all the stimulus funding, Washington policymakers urged school districts to spend Title I funds quickly to preserve and create jobs. But the Title I guidelines from Washington also pushed district leaders to improve student achievement under the federal accountability law, ensuring transparency and school investments that avoid a "funding cliff" when these dollars run out (U.S. Department of Education, 2009). Districts were asked both to invest Title I dollars in improving instruction and to make those choices quickly, with a focus on one-time expenditures. In general, districts are prohibited from using Title I dollars to fund instructional activities otherwise paid for by state or local funds. Yet due to budget cuts, early reports suggest that many districts planned to use these dollars to retain programs and staff (Rebell, Wolfe, & Yaverbaum, 2010; U.S. Government Accountability Office, 2009).

Thus, Tier 3 flexibility was enacted in a volatile financial context. District revenues had been declining for almost three years, and further cuts were coming from Sacramento. At the same time, a sudden influx of one-time federal stimulus dollars offered significant relief for district leaders and local schools.

How Deregulation is Supposed to Work: Policy Theory and Early Research

A variety of policy theories have been used to support deregulation, although the empirical evidence on implementation and effects of fiscal flexibility remains limited, especially within the California context. Since Tier 3 flexibility was not designed around a clear policy strategy, reviewing these various arguments regarding fiscal flexibility helps us understand how the leaders in 10 districts adapted to this sudden flexibility and how the Tier 3 approach might be improved over time.

Early architects of standards-based accountability argued that central governments (state capitals and Washington, D.C.) should focus on setting common learning aims and demanding academic standards, and then let local educators allocate resources in ways that advance teacher quality and student performance (Smith & O'Day, 1991). Many advocates argue that greater local flexibility within a strong accountability framework will allow district and school leaders to move resources toward innovative efforts aimed at enriching teaching and student engagement (Goertz & Stiefel, 1998; Ladd, 1996; Loeb & Strunk, 2007). For example, several scholars and urban school leaders argue that educators inside schools will be unable to allocate resources efficiently (including hiring and firing teachers) without such decentralizing of authority (e.g., Ouchi, 2009).

From a related angle, proponents of charter schools and vouchers argue that allowing public dollars to simply follow the school selections made by parents will set market dynamics in motion that raise the quality of schools in order to attract additional students and families (Chubb & Moe, 1990). For advocates of both perspectives, categorical aid and commensurate regulations constrain resource allocation inside districts and schools.

Some decentralization advocates argue that school principals are the best decision-makers when it comes to allocating resources. Ouchi (2009), for instance, argues that granting principals discretion over budgets and teaching posts leads to larger shares of dollars going to instruction and incentivizes more professional roles for teachers. When district managers allocate teaching posts and dollars and states closely regulate how categorical dollars can be spent, the principal has little flexibility in lifting instructional quality, according to Ouchi and allied advocates. Ouchi's study of districts that move resources through weighted-student formulae suggests that when granted budgetary control, principals work to reduce the count of students teachers face each day. This helps to personalize the school environment and opens time for planning among teachers.

But decentralization of authority alone may not necessarily lift teaching practices and student learning. The accumulating evidence on schools operating within partially deregulated markets, especially evidence of achievement effects, remains mixed (Fuller, 2009). Decentralization, and more specifically deregulation of categorical aid, may also bring associated equity risks. For example, the flow of $4.7 billion in categorical aid (in the newly flexible Tier 3 funding) may increase disparities between schools in per pupil funding, having the opposite effect of the *Serrano v. Priest* decision, which dramatically equalized non-categorical spending. By opening up local political dynamics, where deregulated education dollars are now up for grabs within districts, more advantaged parents or stronger interests may wrestle resources from weaker groups.

Still, financing schools through centrally regulated categorical aid does not ensure effective resource allocation, directing dollars to school-level efforts that best elevate student achievement. Overall, the documented effects of earmarking dollars for smaller classes in grades K-3 in California have been disappointing. The jury is still out on whether smaller classes benefit students in low-performing schools (currently being tried under another categorical-aid program, the Quality Education Investment Act). Long-term success has yet to result from additional resources targeted to low-performing schools, such as through the state's Immediate Intervention Underperforming Schools Program and the High Priority Schools Grant Program, implemented over the past decade (Harr, Parrish, Socias, & Gubbins, 2007; O'Day & Bitter, 2003). Proponents of decentralization argue that long-standing categorical programs, regulated from Sacramento, are not necessarily more effective than activities crafted by district leaders. Decentralizing fiscal controls may create the conditions under which instructional improvements are more likely to occur, according to this position.

Categorical-aid programs at least manifest expressed goals and often means for raising student achievement—and at times have been carefully evaluated. But these often narrowly targeted funding streams build upon arcane funding formula that very few individuals understand in the state capital. Centralizing how Sacramento funds schools has failed to simplify funding or to benefit lower achieving students. So, the policy discussion over how to balance statewide priorities with local discretion intersects the question of how school finance can become transparent and easy to understand.

Empirical Evidence on Fiscal Decentralization

What is known about the implementation and benefits of decentralizing control over education budgets? And how might prior California efforts inform our understanding of how district leaders and local stakeholders respond to deregulation? We turn next to these questions.

Federal efforts at categorical flexibility. Responding to criticism over its compliance focus, the federal government revised its Title I program in 1988, aiming to encourage states and districts to devise more innovative and school-wide Title I programs, rather than simply pulling low-achieving students out of regular classroom instruction for special tutoring (Cross & Roza, 2010). This revision to Title I gave schools serving largely low-income students greater latitude in how Title I compensatory education dollars could be spent, no longer requiring that resources be restricted to eligible children only. Evaluation studies reported that resource allocation patterns did change in sites that were among the first to adopt the school-wide approach (Schenk & Beckstrom, 1993; Wong & Meyer, 1998). Concerns were raised that the resulting consolidation eased administrative complexity but were rarely founded upon a clear, sustainable effort to improve instruction. Greater numbers of schools adopted the school-wide program after requirements were further revised in the mid-1990s (U.S. Department of Education, 2001).

The federal Department of Education enacted its own effort to deregulate categorical aid in 1998—also dubbed, *Ed-Flex*. It allowed states even greater discretion over how they utilized Title I compensatory education dollars. The U.S. Department of Education would waive regulations on federal funding streams if participating states agreed to weave together similarly regulated state categorical aid. But few states took up this offer of flexibility, and some analysts argued that it never became clear how added state-level discretion would lead to more effective school-level allocations (Cross & Rosa, 2010). Still, one national evaluation found that school principals and site councils reported that the flexibility allowed them to align Title I dollars with their school's own strategy for improving student achievement (Raphael & McKay, 2001).

Student-weighted financing of schools. A number of states and districts have initiated an alternative model of fiscal flexibility in which funding is allocated to districts or schools based on student enrollment weighted by the specific attributes of individual pupils. This policy greatly simplifies funding and, in theory, it encourages districts to serve more needy, and hence more costly, students. Oklahoma, for instance, allocates state dollars to districts based on enrollment levels, but individual pupils are weighted in the enrollment count based on an estimate of the additional costs required to serve them, including heavier weights for preschool-age children and special education pupils. Ouchi (2009) details how weighted-student formulae, advanced by states or districts, yields greater discretion to principals over cash aid and, occasionally, teaching positions.

Two California districts, Oakland and San Francisco Unified, implemented versions of weighted-student funding and site-based decision-making in the mid-2000s. A mixed-methods study found that district and school leaders in the two districts had a relatively high level of satisfaction with their student-weighted funding policies (Chambers, Shambaugh, Levin, Muraki, & Poland, 2008). School leaders reported using their expanded discretion to hire additional teachers to reduce class size or support English-learner students, add academic support positions, increase certain useful part-time staff to full-time status, and in some cases, reduce or eliminate non-teaching positions. Some site leaders reported being able to better support their academic planning as a result of the increased transparency in how schools receive funding. Analyses of district-wide expenditures suggest the student-weighted funding policies (along with additional district resource allocation practices) helped strengthen the link between per-pupil spending and student poverty. This work continues in three districts—Los Angeles, Pasadena, and Twin Rivers —where the weighted-student formula approach to school-level budget decision-making is being advanced and studied carefully.[4]

Principals and school-site councils. An older model of fiscal decentralization involves the creation of school site councils to advise principals on how to allocate differing sources of categorical aid. This organizational innovation appeared first in the 1960s when the U.S. Department of Education began allocating Title I dollars to schools via district offices. This approach sought to ensure that principals shared decision-making about federal categorical resources with teachers, parents, and community members. Granting school site councils authority over categorical aid budgeting was intended to help schools customize how they used categorical resources, while creating accountability for spending choices. But in spite of the widespread presence of site councils, along with state and federal funding for them, evidence of more effective resource allocation remains scarce (Malen & Ogawa, 1988).

California created site councils and school-level budgeting with the School Improvement Program (SIP) in the 1970s. SIP awarded state discretionary dollars to schools, which, as with Title I, were required to form a site council in order to receive and allocate funds. Early evaluation evidence suggested that the issues taken up by site councils, the relevance to instructional improvement, and the extent to which data were utilized to make allocation decisions varied greatly across schools and districts (Berman Weiler Associates, 1984; Fuller & Izu, 1982).[5]

These different models of fiscal decentralization differ along key dimensions, including the extent to which:

- State policymakers set clear priorities, such as maintaining a focus on certain types of students or program models, but then let district leaders or site councils set priorities among constrained options;
- School-level leaders enjoy fiscal flexibility, or whether discretion is vested in the district office but not in principals or site councils; and
- State-level actors deregulate the flow of revenues alone, or attempt to build the capacity and data that allows district or school-level leaders to effectively allocate dollars in a more informed manner.

Competing Hypotheses: How will districts or schools respond to fiscal decentralization?

Taking context into account—Sacramento's multiple policy aims, earlier attempts to decentralize fiscal authority, and prior research—several competing hypotheses emerge as to how district leaders and local stakeholders might respond to the Tier 3 reform. These predictions help to frame the DSAC study and our empirical research questions.

- Local school boards and district leaders would sweep deregulated Tier 3 dollars into the general fund to remain financially solvent;
- District leaders would retain some Tier 3 programs, while reassessing budget priorities under variably intense fiscal pressure;
- More focused investments on instruction would emerge, as district leaders respond more flexibly to local needs and accountability demands;
- School-level capacity to build strong teams of teachers and advance reform would be expanded;
- Disparities among districts, schools, or student groups would widen because more vocal, organized constituencies gain a greater share of resources.

With these hypotheses in mind, our study team set out to examine the ways in which 10 districts interpreted and implemented the Tier 3 reform. Next, we describe our research methods in greater detail.

Section 3
Methodology and Description of Case Districts

This section details the methodology used for conducting interviews and tracking basic spending trends in the 10 case-study districts. The purpose of the case studies was to help us develop an understanding of the district and school perspective toward Tier 3 flexibility as the basis for developing a statewide survey. We felt that a sample of 10 districts and twenty schools would be adequate for that purpose. In the following sections, we review the research questions, describe the selection and recruitment of the 10 districts, and describe data collection procedures. We also explain the methods we used for analyzing the resulting case data and generating cross-case findings, and present a framework for thinking about the key domains of study. We conclude with an overview of the 10 case districts and their local contexts.

Research Questions

As introduced above, this report details findings that inform the following research questions:

1. What did district leaders do with the newly flexible Tier 3 funds?
2. How did district leaders make these allocation decisions and who was involved?
3. What were the reported consequences of these allocation decisions?
4. What prior conditions and concurrent factors shaped budget decisions of district leaders?
5. How did federal Title I stimulus funds interact with decisions around Tier 3 flexibility?

District Sample Selection and Recruitment

To inform these questions, we conducted case studies of 10 diverse California school districts. A number of factors guided our selection of these districts. First, practical considerations arose as we considered how to collect in-depth data efficiently from 10 sites located across California. We limited ourselves to districts in twenty-one counties situated within a two-hour drive from the nearest research center in which our team is based, including Santa Monica, Berkeley, or Davis. This decision allowed us to minimize travel expenses and return to sites, as necessary. We excluded districts with fewer than seven schools to ensure we would be able to interview one elementary school principal and one high school principal in each case study district (the potential for principal refusals required multiple schools at each level).

Second, given our study's focus on Tier 3 programs and federal stimulus funds, we wanted to select districts where interviewees would best be able to speak to these shifts in policy. Consequently we set thresholds for the proportion of revenues that districts obtained from federal funds and Tier 3 aid, and excluded districts below these thresholds from our sampling frame. On average, districts in California received 28 percent of their 2007-08 budgets from all restricted sources, and seven percent from Tier 3 categorical funds. To make sure that selected districts could provide useful information about using their new flexibility, when drawing our sample we removed districts in the bottom quartile of percent of budgets coming from Tier 3 categorical funds and the bottom quartile of percent of budgets coming from Title I and IDEA federal funds. Despite this limitation, the districts we selected resembled districts statewide in terms of restricted funds. On average our sampled districts received 31 percent of their 2007-08 budgets from all restricted sources, ranging from 26 to 43 percent, and 7 percent from Tier 3 categorical funds, ranging from 5 to 8 percent. We also excluded basic aid districts (based on 2007-08 status) because their funding situation was different in ways that might affect their responses to flexibility. We only included unified districts, excluding elementary and secondary districts, as a majority of students in California attend school in unified districts.

After these exclusions, we sampled districts that exhibited variation across four key variables: fiscal health, centralization (the degree to which decision-making and control over key policy domains such as curriculum, instructional time, and budget is centralized in the district office), size, and location. We chose fiscal health, centralization, and size because we hypothesized that these variables would likely mediate how districts responded to changes in fiscal policy. We selected on location (Northern and Southern California) both for practical reasons (our team spanned both regions), and we felt that our findings would be more relevant if our sample accounted for geographical variation. We followed the following operational procedures:

- ***Fiscal health.*** Our fiscal health variable was based on three measures: AB 1200 certification (a fiscal accountability law) in 2006-07 and 2007-08, an index of deficit spending in 2007-08 constructed from Standardized Account Code Structure (SACS) data, and an index of actual reserves relative to required reserves in 2007-08, also using SACS data. If a district received positive certifications in 2006-07 and 2007-08, and was in the top 70 percent of districts for both indices, we labeled it "fiscally healthy." If a district received a negative certification in either year, or was in the bottom 30 percent of districts for either index, we labeled it "fiscally unhealthy." All other districts were labeled as "marginal." In order to ensure variation in fiscal health, we excluded marginal districts from the sample and only selected fiscally healthy and fiscally unhealthy districts.
- ***District centralization.*** We wanted to select both "centralized" and "decentralized" districts, because we felt that this variable could play an important role in the decisions districts made around Tier 3 and Title I stimulus funding. For example, decentralized districts that allow for more site-based decision-making might be more apt to pass down Tier 3 flexibility to schools. A good measure of centralization, however, was difficult to find. We attempted to construct a qualitative measure through discussions and informal interviews with state leaders and county offices of education, but this approach was time-consuming and the data we received were incomplete and sometimes contradictory. We therefore decided to use a percentage of a school district's staff who work in the central office. We called this variable the "central administration ratio." We assumed that districts that are more centralized would have a higher proportion of their employees working as central administrators.
- ***Size.*** We aimed to sample large and small districts, so we ranked districts that met the other screening criteria in terms of enrollments and selected incrementally from the top and bottom of the list.
- ***Location.*** To obtain greater geographic balance, we sought to recruit half of the districts from counties in the north and half in the south.

Recruiting districts proved to be somewhat challenging, given the pressures under which districts were operating during the 2009-10 fiscal year, as we entered the field. We contacted approximately 40 districts in order to successfully recruit 10, meaning that about three-fourths of the districts we contacted declined to participate in the study. The research team initially sent email invitations to superintendents to participate in the study and followed up both by telephone and email. We did not offer a financial incentive to districts to participate in the study.

We began recruitment in early February 2010 and were able to finalize our sample of 10 districts by the end of March. Ultimately we recruited a sample of districts that varied across our primary sampling variables. Of the final 10 districts, five are situated in Northern California and five in Southern California; five are characterized as fiscally healthy and five as fiscally unhealthy. The central administration ratio ranged from under 5 percent to about 30 percent. Enrollment ranged from under 2,000 pupils to districts with tens of thousands of students. We describe the final sample in greater detail at the end of this section.

To ensure anonymity, each of our 10 case study districts was assigned a pseudonym based on the name of a former Supreme Court justice (see Table 3.1). We have used these pseudonyms in all notes and write-ups and throughout this report. To further protect the identity of the districts we report approximate statistics for each district.

Interview Protocols and Data Instruments

To gather a wide range of perspectives on the Tier 3 and collateral fiscal reforms, we attempted to interview five groups of respondents in each district: central office staff, school board members, union and association leaders, community leaders, and site leaders. The research team developed a semi-structured interview protocol for each of nine potential roles:

- Superintendent
- Assistant superintendents of business and curriculum
- Assistant superintendent of human resources
- Categorical aid director
- School board member
- Union leader
- Parent or community leader
- Adult education administrator
- School principal

Each interview protocol contained a common set of questions as well as some questions tailored to the particular role of the respondent. Questions were designed to capture information on the following domains: district and community context; interpretation of Tier 3 flexibility; decision-making related to Tier 3 funds, Title I stimulus funds, and budgeting more broadly; implementation and feedback; and anticipation about fiscal flexibility in the future. The protocol also asked specifically about four Tier 3 programs in each district, TIIBG, Professional Development Block Grant, Adult Education, and GATE, in order to compare decision-making about those programs across all districts.

To track Tier 3 spending patterns over a two-year period we created a budget questionnaire distributed to each of the 10 case-study districts. In the wake of Tier 3 deregulation, the state no longer collects district spending data for Tier 3 programs through its Standardized Accounting Code System (SACS) so we requested program-specific spending numbers from each case district. This budget form asked districts to report for 2008-09 and 2009-10 the amount they spent across selected function codes (e.g., instruction, pupil services, administration) and expenditure categories (e.g., teacher and pupil support salaries, books and supplies, professional development) and the number of staff they supported using revenues from the following categorical programs: Title I overall, Title I Stimulus, GATE, Targeted Instructional Improvement Block Grant, the Professional Development Block Grant, and Adult Education.

To understand more deeply how districts responded to particular Tier 3 programs and the factors shaping these decisions, we pursued our data collection in two distinct paths. First, to ensure collection of comparable data across all 10 districts, we chose a subset of four Tier 3 programs to investigate. In all districts, we asked in-depth questions about these programs which allowed for detailed comparative analysis. We purposefully selected adult education because it generates significant revenues to districts (funded at $635 million statewide in 2009-2010) and historically had considerable political support. Although not a large source of revenue for districts, GATE was included in this group because it too, historically had considerable political support. We also focused on TIIBG and the Professional Development Block Grant because, relative to other Tier 3 programs, they are the most relevant to instruction and in theory could be important sources of revenue supporting district instructional reform efforts.

The second approach used in data collection was to ask open-ended questions to respondents about any Tier 3 programs for which 1) their district made allocation changes, 2) decisions around allocation changes were contested, and 3) fiscal flexibility was passed down to principals. As expected, answers to these questions generated information about a wide range of Tier 3 programs and not all districts commented on the same set of Tier 3 programs. As a result, our information about these Tier 3 programs does not have comparable information from all 10 districts.

To better understand a broader set of perspectives on the origins, design, and implementation of Tier 3 flexibility and stimulus funds, we also identified a group of state-level leaders for interviews. We developed a semi-structured protocol with questions regarding: opinions about categorical aid programs in general; opinions about the Tier 3 reform specifically; interpretation of Tier 3 policy aims; implementation of Tier 3 regulations and Title I stimulus dollars, and consequences of Tier 3 for the organization's work.

Data Collection

District and school level. All district-level interviews were conducted between April and July, 2010. Nine researchers worked in teams of two to three per district. Most interviews were conducted in person during site visits to the central office, whereas most principal interviews were conducted over the telephone. The majority of respondents were interviewed individually, but in a few cases we interviewed central office staff in groups of three to six at the superintendent's request. Each respondent was promised confidentiality, and the interviews were audio-recorded for note-taking purposes with the interviewee's permission.

Table 3.1 indicates the number of interviews we conducted by respondent type and district. In total, we interviewed 93 individuals; between six and nine respondents were interviewed in each district. We were more successful in recruiting for interviews central office staff, school board members, and school leaders than we were in recruiting union, association, and community leaders (as shown in Table 3.1).

Community leaders, who typically served in part-time and voluntary positions, were often unresponsive. Union leaders may have been reluctant to participate in the study given strained relationships with district administration. Leaders of statewide teacher associations, however, were readily available and informative.

To understand school-level perspectives, we attempted to interview one elementary and one high school principal, and the chief of adult education in each district. We interviewed principals independently of the district, contacting them directly by email and phone. We promised principals anonymity, and their schools received a $50 honorarium for participation in the interview. We successfully recruited elementary school principals in all 10 districts, and high school principals in nine of the 10 districts.

In selecting principals we only chose those leading "regular" schools, excluding principals of charter and alternative schools, and avoiding magnet school principals where possible. Given our interest in the awareness of principals with regard to Tier 3 flexibility and the infusion of Title I stimulus dollars, and their possible discretion over evolving categorical aid, we preferred to recruit those who headed school-wide Title I programs. If we were unable to recruit a principal from a school-wide Title I school, we contacted a principal in a targeted assistance school, and then, if all else failed, a non-Title I school principal. We also took variability in student achievement into account in selecting schools within districts. This involved recruiting principals from schools with relatively high or low API scores. Thus in some districts, we selected a high-performing high school and a low-performing elementary school, whereas in other districts, we selected a low-performing high school and a high-performing elementary school.

Finally, we interviewed adult education directors in only four districts. In most cases we did not contact the director directly, but instead relied on district contacts to schedule these interviews. In some cases the district did not have a full-time director, and in other cases our contacts were unable to coordinate an interview with the administrator.

Moving beyond interview data, we also collected background information from district websites, conducted online searches of news articles, and downloaded quantitative descriptors of each district from the state Department of Education's website. During our site visits, we collected documents from district offices and interviewees regarding demographics and political developments, budget debates, and media articles regarding teacher layoffs and participation of community leaders or parents. When possible we obtained raw budget data from districts. We also gave our budget questionnaire to a fiscal staff member in each district who completed it and emailed it back to us at a later date. We asked participating principals for a copy of their 2009-10 Single Plan for Student Achievement.

State level. We conducted 12 interviews with legislative staffers or education association leaders in September and October 2010. Each Sacramento respondent was either involved in discussing the Tier 3 reform in early 2009 or was involved in the implementation of fiscal flexibility. Most interviews were conducted in person, individually, or when requested, with two or more representatives of the legislative office or education organization. Individuals were promised confidentiality and field notes were taken during the interviews. The organizations whose perspectives we investigated included:

- Association of California School Administrators
- California Association of School Business Officials
- California Council for Adult Education
- California Department of Education
- California County Superintendents Educational Services Association
- California Teachers Association
- Assembly and Senate of the California Legislature
- Legislative Analyst's Office
- School Services of California

We used snowball sampling to identify policy leaders and organizations involved in the design or implementation of categorical-aid reform, starting with organizations suggested by our Advisory Committee or by district superintendents. Some organizations with which we pursued formal interviews were represented on our Advisory Committee.

Table 3.1: Number of Interviews Conducted in Case Districts by Respondent Type.

	Case Study District											
Respondent group and type	**Brandeis**	**Cushing**	**Duvall**	**Holmes**	**Johnson**	**Marshall**	**O'Connor**	**Powell**	**Rutledge**	**Sanford**	**Total Number of Districts with interviewees in category**	**Total Number of Interviewees in category**
Central Office												
Superintendent	1	1	1	1	1	1	1	1	1	1	10	10
Chief Financial Officer	1	1	1	1	1	1	1	1	1	1	10	10
Other Fiscal staff		3		1		1		1			4	6
Chief Academic Officer	1	1	1	1	1		1*		1		7	7
Categorical Aid Director				1	1	1*			1	1	5	5
Other Academic / Instructional Staff					2				1		2	3
HR Director	1		1	1		1	1*	1	1	1	8	8
School Board												
School Board Member	1	1	1	1	1	1	1	1	1	1	10	10
Unions and Associations												
Teacher's Association		1		1		1			1		4	4
Management Association		1									1	1
Community Groups												
Parent Organization Rep	1	1	1				1		1		5	5
Local Ed Foundation				1					1		2	2
Site Leaders												
Elementary School	1	1	1	1	1	1*	1	1	1	1	10	10
High School	1	1	1	1	1	1		1	2	1	9	10
Adult Ed Administrator		1	1		1			1			4	4
Total Number of Interviewees in District	**8**	**13**	**9**	**11**	**10**	**8**	**6**	**8**	**13**	**7**		**93****

NOTES: * In Marshall, the categorical aid director and elementary school principal are the same person.
In O'Connor, one cabinet member is in charge of instruction and personnel.

**Total number of interviews conducted in all districts.

Data Analysis

We followed two main steps in analyzing the district and school level interview data. The first stage involved researchers analyzing interview notes along key domains pertaining to district context, policy interpretation, actions, decision-making, implementation, perceived effects and future plans, and drafting case study summaries for each of the 10 districts. For each district, one researcher took the lead on writing the summary, with her site visit partner(s) reviewing the summary and making additions. Each summary was between twenty and thirty-five pages long.

The second analytic stage involved assigning thematic domains or "bins" (e.g. Budget Decision-making or Interpretation of Tier 3) and analyzing the data in their bin across districts. Researchers wrote detailed memoranda for their bins, and these memoranda were distributed to the research team. The study team then met to discuss the defensible findings which emerged from these analytic steps. We also analyzed state-level interviews to provide greater insight into the origins and design of Tier 3-related fiscal policies. This information is integrated into the early chapters of this report.

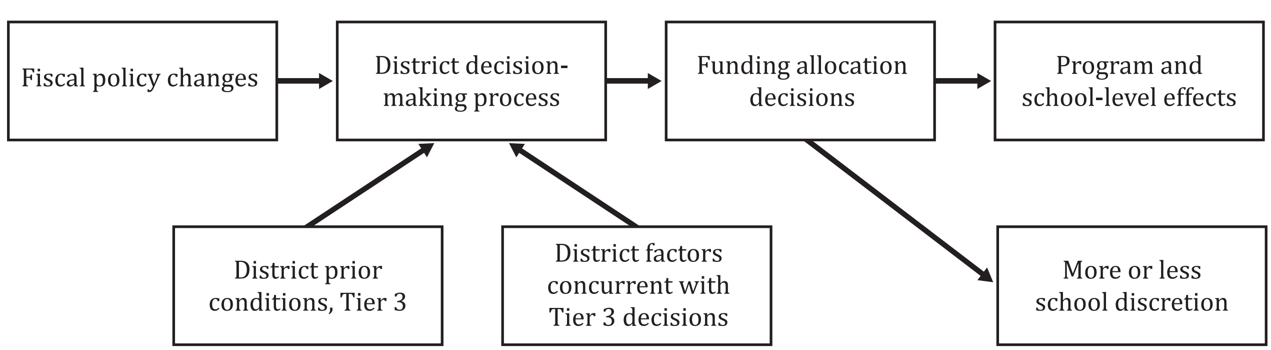
Researchers prepared and presented a detailed briefing of preliminary findings to the Advisory Committee, which included central office leaders from non-case study districts and one county office, legislative staff, and university researchers (Appendix B lists members). Feedback from two Advisory Committee meetings was incorporated into report drafts that were later circulated among both the research team and external reviewers for additional comment.

Emerging Conceptual Framework

As our district visits proceeded and we began to detect shared patterns, a simple conceptual framework began to emerge that helped organize our final round of data analysis and the structure of this report. This model, illustrated in Figure 3.1, builds on prior research and on our interviews. It serves to clarify steps in the budget decision-making process, along with prior and concurrent factors that often shaped allocation choices.

The model begins with the bundle of policy shifts linked to the Tier 3 reform. From the outset we recognized that this policy shift did not occur in isolation, but instead occurred simultaneously with severe budget cuts experienced in many districts, new regulations allowing districts to reallocate year-end balances from most categorical-aid accounts (known as "carryover"),

Figure 3.1. Conceptual framework of how fiscal policy change may shape district and school organizations.



and the influx of new stimulus dollars. Districts were expected to interpret this series of policy changes, then engage in a decision-making process that ensured balancing their general fund and making allocations in up to 40 previously earmarked categorical-aid funds (along with other restricted dollars). This process would lead to a set of allocation decisions and actions, for example, eliminating or scaling back certain programs and investing in other areas. Ultimately, these actions would translate into effects at the district and school level; for example, optimistically, leading to administrative cost savings, greater efficiencies and more coherent or coordinated reform efforts, or pessimistically, leading to greater inequity in services to disadvantaged students.

The model also recognizes that there are many conditions and factors likely to shape district budget decision-making (including student demographics, community wealth, prior focus on accountability and instruction), conditions which operated prior to Tier 3 reform. Local school boards and superintendents also had to consider fungible Tier 3 resources in the context of paring back spending and often laying off staff. Our starting point here was the set of variables used to sample our 10 districts, including fiscal health, size, and level of centralization, which we viewed at the outset as possible mediators of district decisions and actions. Our intent is not to prove causation—the factor X always causes decision Y—but instead to explore the range of possible factors affecting the decisions districts made with respect to allocating newly flexible Tier 3 funds.

The remainder of this report details our findings, outlining what we learned about these key domains: the allocation decisions districts made; how they made these decisions; with what reported consequences and concerns; and why. We return to this model in Section 7, where we elaborate on the key explanatory factors.

Study Limitations

Several caveats must be kept in mind when reading and interpreting our findings. First, our sample of districts was not randomly selected nor selected to be representative of all districts in the state. Instead, we purposely chose these 10 districts to provide a range of contexts in which to explore responses to fiscal flexibility and variation in key conditions such as fiscal health, size, and geographic location. Further, within districts we also purposefully selected a sample of individuals to interview and in some cases were unable to capture perspectives of certain groups, notably labor unions and community leaders. As such, the views of individuals interviewed in our 10 districts cannot be generalized to all individuals within districts or to the overall population within the state.

Despite the two limitations noted above, the results of this research make important contributions to understanding how individuals think about fiscal flexibility and make decisions around allocating newly fungible dollars. They provide a preliminary picture of possible responses and actions, as well as explanations that we plan to examine more broadly in a survey administered to a representative sample of districts in the second year of the study. We believe these survey data will produce findings that can be generalized to districts statewide.

Description of District Cases

Table 3.2 and Figure 3.2 display summary data for our 10 districts. Table 3.2 contains our four primary sampling variables (region, size, fiscal health, and centralization), as well as an additional geographic variable (Urban-Centric Locale) and two performance indicators (Program Improvement Status and Academic Performance Index). Figure 3.2 displays two demographic variables, percent poor and percent non-white. In order to protect the identity of districts, we report all the variables in Table 3.2 in ranges or categories and round the demographic variables in Figure 3.2 to the nearest multiple of 10. The 10 districts exhibit variation in our four primary sampling variables, as well as in performance and demographics. Note that the fiscal health variable we report in Table 2.2 is based on our qualitative data collection rather than the Healthy/Unhealthy variable we used for sampling purposes and will be described in further detail below where we also describe the 10 districts in terms of community profile and fiscal health.

Community profiles, student demographics, and performance. Sampled districts vary in terms of size, geography, location, and demographics. Enrollment size ranged from four districts with less than 5,000 students to three districts with greater than 15,000 students. Five of the districts are located in Northern California and five are in Southern California, with the 10 districts spread across eight counties. Latinos make up at least a third of each district (not displayed), and (non-Latino) White populations range from very small proportions of total enrollment in Duvall, Johnson, and Sanford to about half in a number of districts. Cushing and Johnson have substantial African-American populations, while Cushing, Johnson, and Duvall have substantial Asian populations (not displayed).

Districts also vary in terms of student performance. Seven of the districts are in some stage of Program Improvement, while three districts are in good standing in terms of federal accountability measures. Two districts had API scores of less than 700 in 2008; one district had an API of greater than 800; and the remaining districts had APIs between 700 and 800.

Fiscal health. After visiting the 10 districts, we concluded that our fiscal-health sampling variable did a good job identifying healthy and unhealthy districts. The interview data we collected substantiated that Duvall, Brandeis, Marshall, Powell, and O'Connor are relatively healthy (showing a reasonable level of reserves and low deficit spending), whereas Cushing, Holmes, Rutledge, and Sanford are fiscally unhealthy (facing significant deficits and shrinking reserves). The one exception is Johnson, which our sampling variable identified as healthy but according to our interviews is quite unhealthy. Classifying Johnson as unhealthy gives us five healthy and five unhealthy districts in the sample, which was our original sampling goal.

Based on our data collection, we created a more fine-grained measure of fiscal health with four rather than two categories to explore how much variation we captured in our sample. This measure incorporates a number of factors including the current fiscal status of the district at the time we sampled, the change in fiscal status from previous years, the degree to which the district has had to dip into its reserves, and the severity of budget cuts in the district. From low to high, we labeled the four categories as *Poor Fiscal Health, Unhealthy but Surviving, Healthy but Declining*, and *Very Healthy*. We found that our sample was diverse with respect to these more refined categories of fiscal health, as well as the binary distinction reported previously. We describe each category and the districts that fall into it below:

- Two districts, Johnson and Sanford were classified as having poor fiscal health. These districts were already in fiscal trouble prior to the economic crisis, and as a result are particularly struggling in the wake of state cuts.
- We categorize three districts—Cushing, Rutledge, and Holmes—as unhealthy but surviving. These districts are experiencing substantial budget deficits, and as a result have had to make painful decisions, including cutting programs and personnel, instituting furlough days, and increasing class size.

Each of the three districts maintains minimum reserves, and Rutledge has had to take out short-term private loans to make payroll. Despite these difficulties, Cushing, Rutledge, and Holmes are surviving by becoming leaner and scaling back to a lower level of service. But given their low level of reserves, the situation in these districts is somewhat precarious.

- Brandeis, Duvall, and Marshall are Healthy but Declining. These districts remain relatively healthy, but have taken a hit as a result of the economic crisis. All three districts have had to dip into their reserves in order to make up for decreased revenue stemming from state cuts and declining enrollment.

- Finally, two districts, O'Connor and Powell, can be classified as very healthy. In both districts, reserves exceed guidelines and have remained consistent. However, despite their healthy status, these districts have not been unaffected by the state fiscal crisis. O'Connor has laid off staff, Powell has increased class size in Grade 3, and both districts were planning to have furlough days in the 2010-11 school-year.

Next, we turn to how leaders in the 10 case districts responded to the Tier 3 reform and whether school principals experienced greater discretion. We then examine the decision-making processes that local school boards and superintendents facilitated, and the local conditions that shaped variation in district-level responses to fiscal deregulation.

Figure 3.2. Percent of students in case study districts that were poor or non-white (2007-2008)

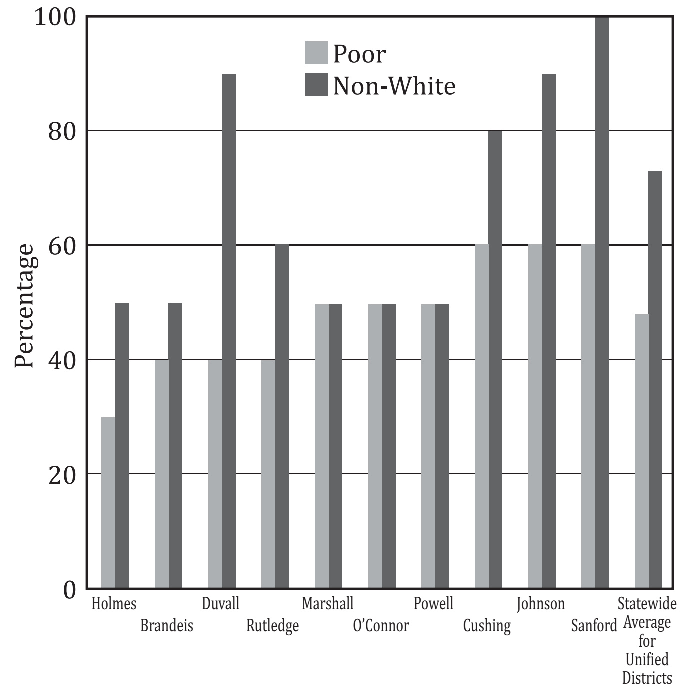


Table 3.2: Summary Data of Case Study Districts

District	Region	Urbanicity	District Size (enrollment range)**	Fiscal Health	Percent of district in central administration**	PI Status (2009-10)	2008 API**
Brandeis	North	Town	Small (<5000)	Healthy but declining	11-20	Yes	750-800
Cushing	South	City	Large (>15000)	Unhealthy but surviving	1-10	Yes	700-749
Duvall	North	City	Medium (5000-15000)	Healthy but declining	11-20	Yes	750-800
Holmes	South	Suburb	Medium (5000-15000)	Unhealthy but surviving	1-10	No	>800
Johnson	North	City	Large (>15000)	Poor fiscal health	1-10	Yes	<700
Marshall	South	Rural	Small (<5000)	Healthy but declining	21-30	Yes	<700
O'Connor	North	Rural	Small (<5000)	Very healthy	21-30	No	700-749
Powell	North	Town	Small (<5000)	Very healthy	21-30	Yes	700-749
Rutledge	South	Suburb	Large (>15000)	Unhealthy but surviving	11-20	No	750-800
Sanford	South	Suburb	Medium (5000-15000)	Poor fiscal health	1-10	Yes	700-749
Average for all unified districts	—	—	12157	—	17	—	—

Notes: *Urbanicity is a version of the Common Core of Data urban-centric locale variable, collapsed to four categories.
**To protect the identity of districts, these variables are reported in ranges.

Section 4
District Responses to Tier 3 Flexibility and Stimulus Funds

CDE guidance specifies that for Tier 3 programs, "program or funding requirements, as otherwise provided in statute, regulation, and budget act provisional language associated with the funding, are not in effect" (California Department of Education, 2009). Furthermore, in an April 17, 2009 letter to districts, CDE clarified the flexibility provisions and emphasized districts' freedom to allocate those funds as they wished, "For 2008-09 through 2012-13, LEAs may use funding formerly restricted for 39 specified categorical programs for any educational purpose." Yet, district leaders did not always share this understanding, nor did they utilize the full flexibility that was allowed.

In this section we report on how district leaders and local stakeholders interpreted and responded to Tier 3 flexibility. We detail how superintendents and district staff understood the rationale and rules of the Tier 3 reform. These findings speak to our first research question: What did district leaders do with the newly flexible Tier 3 funds? We describe how leaders in the 10 districts and about twenty school principals understood the purposes and potential uses of these funds, and the allocation decisions that they made during the first full year of implementation. We also report on how these local actors allocated Title I federal stimulus funds, at times in conjunction with Tier 3 flexibility.

District Interpretations of Tier 3 Flexibility

How Tier 3 flexibility was interpreted and then implemented varied greatly across the 10 districts. Six of 10 districts believed that flexibility was truly unconstrained and allowed for real choices. One CFO in Cushing explained: "There's a lot of difference between buying a textbook and paying for a literacy coach. It was illegal [to use funds for one to do the other] before and it's legal now." According to these leaders, their districts were free to use funds, both ending balances and current year funding, as they chose.

> *"It's the state saying, 'Oh, we're not going to give you money here, so now you can take it from here.' It's six of one, half-dozen of another."* – Powell superintendent

Yet the other four districts regarded spending flexibility as limited by educational mandates or legal (e.g. contractual) requirements. Leaders in these districts felt obligated to meet the intended needs represented by some of the categorical funding streams. For example, one respondent described the perception that school administrators needed to follow the rules and regulations to meet the needs of GATE students even though GATE funds now go into their general expenditure.

Despite the variation among districts in the perceived degree of flexibility afforded by deregulation, the perceived rationale for the policy was more uniform across districts. Many attributed Tier 3 flexibility to the existing economic and budget crisis rather than to a purposeful policy shift. For example, one superintendent commented that flexibility was a "misnomer" and that the state "loosened regulations for survival." He also believed that it was ironic to be given flexibility but no funding. In two districts, administrators viewed Tier 3 flexibility as a way of preserving teaching positions. For example, one respondent in Holmes explained, "[F]lexibility really doesn't mean anything to us except that we are able to hold on to more positions and survive slightly better, not a lot better. But slightly."

Respondents differed widely in their perceptions of how long Tier 3 flexibility would last. In some districts, administrators admitted to not thinking too far into the future about the lifetime of the program. One Holmes school board member stated "We'll adjust when they tell us we no longer are going to have the ability to sweep into one big pile that we can use in the general fund… As a board, we haven't looked at the long term… right now we're looking at survival. We're looking at our toes. We're trying to survive on a day to day basis." In yet other districts, administrators speculated that flexibility would cease when economic times improve. On the other hand, respondents in three districts thought that flexibility was permanent. One chief administrative officer characterized the changes as "like toothpaste out of the tube," saying that "When you combine the flexibility with budget cuts, it's almost impossible to put these back in place. The resistance will be so massive, the state won't be able to do it." Our interviews with Sacramento policy leaders tended to concur.

Overall District Responses to Tier 3 Flexibility

Just as district leaders varied in their interpretation of the Tier 3 reform, we also observed diverse responses in terms of how Tier 3 dollars were allocated. Districts did not uniformly or predictably eliminate some programs while maintaining others. A few districts did "sweep" all of their categorical funds into the district's general fund. Other districts chose to sweep some of the Tier 3 dollars and eliminate the programs that those funds supported. Yet others swept the Tier 3 dollars, but continued to fund some of the programs or activities out of the district's general fund.

This subsection details the variety of district responses to Tier 3 flexibility. We will weave into the story how federal stimulus dollars (Title I) were at times part of the allocation mix, as reported by district leaders. But first we clarify four distinct patterns observed across districts. These are not mutually exclusive budget responses or strategies; some districts engaged in more than one simultaneously.

- ***Retrenchment and backfilling:*** when district leaders largely reallocated Tier 3 dollars into the general fund to balance the overall budget. Often Tier 3 programs were severely cut back or eliminated.
- ***Efficiency seeking and reassessing spending priorities:*** often involving selectively reducing Tier 3 programs, while maintaining others. Priority setting occurred within the array of previously operating Tier 3 programs.
- ***Reallocating dollars to advance new initiatives:*** at times reallocating Tier 3 and other categorical aid to create or sustain instructional improvement efforts, or other new programs.
- ***Sharing flexibility with school principals and site councils:*** Operating across these budget responses, district leaders varied in their commitment to sharing newly flexible dollars with their principals, given fiscal exigencies.

Retrenchment and backfilling. This strategy is characterized by the decision to sweep Tier 3 funds into the general fund and reallocate them as needed in order to maintain the perceived core education programs in spite of severe fiscal constraints. Tier 3 dollars were used to backfill reductions in funding in general revenues. To some extent, all districts adopted this strategy and took advantage of the authority to shift flexible dollars into the general fund and to reconfigure, consolidate, or eliminate some Tier 3 programs. In some instances, programs previously supported with Tier 3 funds were entirely eliminated. In other instances, programs were scaled down (in response to overall fiscal reductions) and funds for the programs were shifted to the district's general fund. Officials in Brandeis stated that they swept Tier 3 dollars into the general fund in order to address structural deficits and to retain staff.

In O'Connor, Tier 3 funds were shifted to the general fund, at the recommendation of California School Services, in order to make payroll.

The Sanford district was experiencing declining enrollment and had recently recovered from a significant deficit. As a result, the district entered the 2009-2010 school-year with few services or programs that could easily be cut. Consequently, the district's response was to sweep all categorical funds in order to protect teaching positions.

Retrenchment to Balance the Budget

Sanford had been contending with budget cuts since 2003, when an audit revealed over a $10 million budget shortfall. The small district was stabilizing its finances just as the state fiscal crisis began in 2008. After years of budget reductions and declining enrollment, the district entered 2009-2010 with few services left to cut. Sanford's central office administration had already been pared down to a bare-bones structure, and several of the elementary schools had been closed. Tier 3 flexibility was seen as an opportunity to backfill the general fund and preserve jobs.

In order to reduce the number of layoffs, the majority of the Tier 3 funds were swept into the general fund. Of the remaining Tier 3 dollars, the district cut the allocation down to the minimum contribution needed to remain functional, and swept the remainder. The superintendent said, "It's just that we need to sweep all that we can in order to survive. That's the tragedy of what's happening in education, is that we're eating our own in order to survive."

Under the leadership of the superintendent and the assistant superintendent of business (ASB), the cabinet identified the Tier 3 programs that could be reduced or eliminated in order to support the general fund. The ASB said, "We wiped out everything else that we could." Administrators acknowledged these cuts impact the core instructional program, but they felt it was necessary to maintain solvency. After years of budget reductions, they believed their options were limited. The ASB felt that additional staff reductions would also negatively impact the educational program, explaining, "Our goal still was to save programs, but it also was to keep people, too. Without people, you can't run the programs. We're really at this point where we're trying to do so much more with so much less, that every body that's eliminated creates that much more hardship on the people that are left." The categorical aid director referred to this concept as "preserving services to students *through* positions."

Sanford outright abolished some programs. GATE, a program that was not well-entrenched, was eliminated in 2009-2010. Supplemental Counseling was eliminated for the 2010-2011 academic year. Other programs were swept but maintained through alternative funding streams. Although the district moved all of the Professional Development (PD) Block Grant funds into the general fund, it used Title II and EIA monies to continue to offer site-based PD.

Most Tier 3 programs faced severe cuts, though the district maintained the minimum amount necessary to continue offering services. After extensive internal lobbying by curriculum administrators, the district preserved one teacher's salary to continue the California High School Exit Examination support and swept the remaining dollars. Administrators kept the Beginning Teacher Support and Assessment program intact, despite sweeping some of the money into the general fund.

Sanford belongs to a Regional Occupation Program consortium, and they continued their contribution to the group in order to maintain services. The remaining dollars were used to backfill the general fund. The district eliminated half of the school safety officers, who were traditionally funded through Tier 3 dollars.

In consultation with the director, the adult education program was redefined to become more academically oriented. Sanford adult education continued to offer ESL and citizenship classes, along with credit recovery for high school students and GED classes. For 2010-2011, the district cut the program by well over half a million dollars—about a third of the prior year's budget—and shifted those monies into the general fund. Any recreational programs are now required to charge fees in order to be self-sustaining.

The ASB met with the maintenance and operations director to identify priorities, creating a list of necessary and optional projects. Based on that list, the district sought an estimate from a contractor and had the necessary repairs made. The remainder of the deferred maintenance funds was swept. According to the superintendent, the union was pressuring the district to eliminate all adult education and deferred maintenance funding in order to preserve regular teaching jobs.

Sanford's School and Library Improvement Block Grant dollars have been entirely swept, along with funds from Art and Music, PE Block Grant, Educational Technology, and the Targeted Instructional Improvement Block Grant. Many of these categorical programs were previously controlled in site-level budgets and spent with the approval of the principal and school site councils as part of the site's Single Plan for Student Achievement. As of 2009-2010, the site-level budgets contained only restricted categorical dollars, primarily Title I and EIA. This has greatly reduced the school-level flexibility, as well as the overall site budgets.

Efficiency seeking and reassessing spending priorities. The efficiency strategy is typified by the decision to use Tier 3 flexibility as an opportunity to allocate funds more efficiently and to align program funding with local needs and priorities. Some districts pursued efficiency by targeting money more strategically to existing Tier 3 programs. In others, efficiency was achieved by reallocating Tier 3 categorical dollars to new instructional initiatives. Infrequently, districts tried to be more efficient by devolving some funding decisions to the school level.

According to the superintendent of Marshall, Tier 3 flexibility allowed them to be more "economical," to "make better use of the money," and "to coalesce that money and spend more on areas of need." As an example, he explained,

"When I first got here, we were under an Office of Civil Rights investigation because we weren't doing a very good job dealing with our ESL students. So now we've kind of firmed that up and done some other things to make sure that those students' needs are being better met. Having flexibility allows us to do that more efficiently."

The superintendent noted that some of the categorical funding streams were simply too small to have much programmatic impact and that consolidation allowed them to pool funds for higher priority programs. Conversely, some funding streams exceed district capacity to use them, such as Proposition 49 funds for after-school programs. "It's a matter of shifting some programs that used to be during the day to after school and shifting transportation to maybe come to the school a little later," the superintendent explained. "Next year, we're going to move a lot of sports and arts to after school and then run one bus after the after-school programs."

The assistant superintendent for finance in another district pointed to the inefficiencies of carrying over millions of dollars of unspent funds from categorical programs prior to deregulation. So too, the superintendent of Marshall noted the greater efficiencies realized from flexibility.

"(Flexibility) allows us to streamline what we're doing. We were spending [more than a million dollars] in general supplies—way too much for a district this size. It's made us think about what we're doing and how much we're spending. It used to be you had this much in this category, so you felt like you had to spend that much in a certain category. Now we think more about what we need…Good consequence is that it's allowed us to put money where our kids need it to be, not where someone tells us it should be."

Like the superintendent in Marshall, others noted that flexibility allows districts to match funding with local priorities. In districts that received extensive input from a variety of local stakeholders, administrators attributed a lack of opposition (to the sweeping of categorical funding) to appreciation of district efforts to honor local concerns. As the board president of O'Connor noted, "I think that the community was satisfied with our district priorities because we got a lot of input from them. Since that was driving the budget, then they felt that sweeping those (Tier 3) funds was more in line with our priorities."

One administrator in Johnson emphasized that the district has generally moved toward ignoring Tier 3 program labels. With categorical flexibility, programs and departments in the district receive allocations "negotiated by [what] the (state budget) cut was and the restricted or unrestricted targets." It was left to program managers to decide how to spend those funds. In the 2010-11 academic year, the superintendent felt he had to make difficult choices between adult education and early-childhood education. In the end, the district made additional cuts (beyond those made in the previous year) to adult education in order to minimize cuts to early-childhood programs. As the superintendent noted:

I don't want to trade adult ed for early childhood, and yet…if I don't, we will never be funded at a high enough rate to make up for not doing early-childhood intervention. If you don't do early-childhood education programming for a couple of years and then those kids come into the system, you can't…we'll never see that level of funding back again to make up for that. Whereas if for a couple of years, we have to figure out other ways to serve and meet the needs of the adult community, we might find some "work-arounds" for doing that.

When Duvall and Powell merged adult education and continuation school administrator positions, they realized substantial reductions in overhead costs. Duvall estimated savings of about $150,000 by restructuring administrative overhead. Powell's administrators also stated that they had used similar strategies for cutting overhead costs and for using those savings to preserve the adult education services and, just as importantly, to "keep cuts away from the classroom." This was a familiar refrain across other districts, as well as the goal of minimizing teacher layoffs and limiting the growth of class sizes.

This second pattern, focusing on reassessing program priorities and reallocation, rarely involved the use of performance data across programs. Some expenditure efficiencies were obvious and easily implemented, as illustrated above. Reallocations often were guided by basic principles, like keeping cuts from the classroom or focusing on activities defined as core tasks, then trimming more peripheral activities, such as adult education. But in no instance did district staff refer to formal evaluation evidence or performance data to weigh the relative effects of different Tier 3 or collateral programs. This holds implications for how we consider the efficiency of local decision-making regarding allocations, an issue to which we will return.

Rethinking Tier 3 Priorities, Seeking Efficiencies

Marshall is a small, rural district with declining enrollment. The superintendent spent his first year, 2008-2009, reshaping the organization of the district and consolidating decision-making in the central office. Then, in 2009-2010, he shifted his focus to improving classroom practice. "First, we had to get the structure more efficient and economical and easier for us to control and maintain," he explained. As part of those measures, all Tier 3 categorical funds were moved under central office discretion, though the programs continued to be supported in some manner.

The Marshall interviews repeatedly revealed the district's strategy to consolidate smaller Tier 3 categorical resources. Marshall did not receive large amounts of categorical funds from any single program. The superintendent expressed that flexibility was particularly helpful for small districts, "I think it was thirty or so categories that were folded in – a lot of those categories, we get $8-9 thousand – very small amounts – hard to run programs, because amounts are so small. Flex allowed us to coalesce that money and spend more on areas of need." In answer to another question, the superintendent reiterated the efficiency gained through flexibility, "because we can't take some of these smaller pots, like the $3 thousand here and the $8 thousand there, and kind of fold those in to help [fund priorities]." Similarly, a board member said, "My understanding is that we can pool this money together…It isn't our hope that we necessarily backfill our general fund."

The district used the same approach to Tier 3 carry-overs. Due to the previous restrictions in Tier 3 programs, the district used to have about $3 million in categorical carryover each year. Flexibility allowed them to shift that carryover into the general fund without reducing services. According to the superintendent:

Anybody could come in and say, 'Why do you have so much carryover? How were you operating your programs?' If you are operating your programs, then you don't need this much money to continue to operate this program. With the beauty of flex, we can hold off on giving this money to you. You have been able to operate that program without it; now we are going to ask you to continue to operate that program. We can use that [carryover] for other things.

Marshall, like several districts in our sample, developed greater efficiency by folding adult education and the alternative education schools into one program. Most of the Tier 3 programs became more centralized in the district's quest for efficiency. The one anomaly was the Art and Music Block Grant. According to a cabinet member, the district absorbed those funds and then sent it back to the school sites in a more flexible way.

Reallocating dollars to advance new initiatives or to sustain instructional improvement efforts. Two districts leveraged Tier 3 flexibility to mount efforts aimed at lifting the quality of teaching and student achievement. The recently hired superintendent in Duvall, for example, used a portion of Tier 3 dollars to help balance the general fund and minimize teacher layoffs. But he also creatively combined Tier 3 and Economic Impact Aid (EIA) dollars into a new fund that supported a cadre of instructional coaches. The superintendent also replaced a number of school principals, and built a common mission among his new set of school leaders, fueled by these interwoven sources of categorical aid.

This instructional improvement strategy was not sparked by the Tier 3 flexibility. The superintendent relied mainly on EIA dollars, essentially swept-up from within his schools, where allocation decisions were previously made. But the superintendent linked Sacramento's push for fiscal flexibility to his own discretion by more inventively allocating categorical aid for his new initiative. "Since I strongly believe in developing teaching and learning communities to strengthen schools' work, any time there can be funding to support it, all the better... I use whatever [monies] I can get my hands on," the superintendent explained. "We're not paying attention to dollar amounts. Instead, we're trying to develop a more systematic approach and using money to support it, so there aren't little silos and so people understand the focus of the work."

Cushing redirected various funding streams in order to maintain high-priority programs and to continue to consolidate ongoing school improvement initiatives. According to the district's budget director, they swept more than a third of the district's TIIBG funds. More than two thirds of the remaining funds were used for transportation (according to this administrator, a significant portion of TIIBG money was used for transportation because they didn't get enough transportation money from the state). The remaining money funded a number of programs, including, at one of the district's high schools, a special program supporting an additional teacher to expand A-G offerings to improve the image of the school in the community.. A number of other programs and positions that used to be funded by TIIBG were cut in 2009-10. They included two established, small learning communities, contracts with external providers to support the district's core academic initiative, and music teachers. According to a 2010 Board action, the district planned to sweep another several million dollars in 2010-2011. This would include cuts to transportation.

In several districts, administrators welcomed the freedom to consolidate categorical funding streams so they could be used to greater effect. In one district, officials noted that their categorical programs were isolated and fragmented. Individually, categorical funding streams were insufficient to be used effectively. In the aggregate, on the other hand, they could be targeted to areas of need. A board member in Johnson commented that "more of the Tier 3 money is flexed, more of the programs are being flexed…A lot of these programs are pretty modest."

School officials in O'Connor expressed similar views. In that district, the adult education program was very small, and teaching adults was not the district's perceived core mission. Consequently, the district eliminated all adult education programs and shifted the savings into the general fund. District officials reasoned that the local community college would pick up any slack in adult education offerings. As noted above, administrators in Cushing also redirected funding to try to maintain high-priority programs.

Consolidating Categorical Aid for Teaching Gains or New Initiatives

In the summer of 2009, the Duvall school board hired a new superintendent with the specific goal of bringing the district out of program improvement (PI) status. The new superintendent orchestrated many district-wide organizational reforms, such as centralizing the use of EIA dollars, as well as money used to organize professional development and teacher training initiatives. The superintendent and board have used Tier 3 flexibility to backfill the general fund, but they have also targeted the flexible funds toward helping the district exit program improvement.

Duvall's superintendent believes that the primary way the district will improve its educational program is to focus on building the instructional capacity of its faculty. In his words, "Since I strongly believe in developing teaching and learning communities to strengthen schools' work, any time there can be funding to support it, all the better." Duvall pooled the Professional Development (PD) Block Grant with Title I, Title III, and EIA funds to develop a strong PD program with almost $2 million in PD offerings. PD strategies included instructional coaches, administrator training, focusing interventions driven by student data software, as well as the development of professional learning communities. One top-level administrator agreed, stating, "PD is one of our highest goals, given our PI status. We're still mandated as a PI district to have 40 hours of PD in language arts and math for all teachers."

Much of the focus was on K-3 professional development. According to the superintendent, "It's a critical part of what we do; otherwise in later grades, we end up doing a lot of interventions. We're trying to make a difference. It's a conscious choice."

Tier 3 flexibility was interpreted by district administrators as giving them a chance to prioritize their expenditures in a way that was not possible with categorical restrictions in place. According to the Duvall assistant superintendent of business, "It started this year. It was a combination of the Tier 3 being unrestricted and less money coming out of Sacramento. Those two things simultaneously spearheaded these conversations and added some impetus." He added later, "When we had those conversations, it was really about asking, 'How do we better spend money and apply those resources to where we want them to go?'"

Several Tier 3 programs were swept and eliminated in either 2009-2010 or the 2010-2011 school-year. These included deferred maintenance, the Art and Music Block Grant, Grade 9 class size reduction, PE, and educational technology. GATE was cut for 2009-2010. Duvall cut adult education by over 30 percent, in part because adult education was not perceived as connected to the priority of teacher development and getting the district out of program improvement. The district has consolidated the continuation high school with the adult education program, which share a facility, which garnered over $100,000 in savings. The Targeted Instructional Improvement Block Grant was swept in 2009-2010, and the carryover was used for a language arts adoption, which was seen as in line with the goal of improving student achievement.

Sharing flexibility with school principals and school-site councils. In general, we did not see much flexibility shared with school principals. In a shift toward decentralization, Brandeis swept all of its Tier 3 dollars into the general fund. Some of the programs that had been funded by categorical funds continue to operate in schools. However, the district gave greater discretion to schools over the combination of instructional programs it chooses to provide. Schools may decide how to allocate general funds among various programs. Some schools have decided to continue GATE, physical education, music and art, funding them out of their own budgets or through private fund-raising.

Johnson is unique among the sampled districts in that the district operates under a budgeting system, which existed prior to Tier 3 flexibility, where a majority of the district's general-purpose funds flow directly to school sites. The system was implemented as part of a set of district-wide redesign initiatives intended to empower site leaders to make choices about how best to serve students. Although schools must abide by contractual requirements and state class size mandates, school leaders generally have more flexibility to configure staffing arrangements and instructional programs under this system. Each school's budget is determined by the number and type of students enrolled and the attendance rates of the school; once teachers' salaries and benefits are covered, principals and school-site councils are able to spend the rest of their funding on the specific needs of each school, be they books, supplies, or teacher professional development.

But beyond freeing up restrictions around the use of School and Library Improvement Block Grant (SLIBG) funds, it did not appear that Tier 3 flexibility offered any major new fiscal freedom for principals in Johnson. That was largely due to the fact that the district swept up monies for its own use in 2009-10, so certain monies no longer went to schools. In addition, several Tier 3 funding streams had previously come to schools, so principals already used these dollars for discretionary spending.

Sharing Fiscal Flexibility with School Principals

Rutledge was one district that shared flexibility with school principals, in addition to backfilling and developing efficiency. After sweeping the School and Library Improvement Block Grant (SLIBG) dollars, the district returned approximately 50 percent of the original allocation to principals as unrestricted dollars. GATE funds were also returned to the sites, without restrictions, at about 50 percent of the previous allotment. This decision allowed principals to bypass the approval of the school site council, which was previously required to have oversight over the SLIBG funds. Not all principals opted to use this new discretion. Some continued to follow the old procedure as a way to ensure the staff and parents were included in the decision-making process.

One school is using the new flexibility to create what appeared to be a "reserve" fund to use at the principal's discretion for timely responses to requests, something that was not possible prior to the flexibility. Another cabinet member noted that using unrestricted funds allowed principals to allocate money without adhering to some of the previous regulations. According to the director of curriculum and instruction:

The principal has the flexibility to say, 'I'm going to buy 3 computers for a new program I have for kids that I believe will benefit my kids during reading time for those GATE kids.' Where before we would have been really limited to who was on *that computer…In the past, only GATE kids could have been on that computer, because it was categorically funded by GATE. Well, now, if we have a kid who's a high achiever who's not necessarily GATE, but he's smart, doing well, works hard – we can still use that computer.*

Rutledge administrators gave Title I Stimulus, Part A funds to Title I elementary and middle schools to use at their discretion, partly as a means to counteract all the other reductions. High schools in Rutledge do not receive Title I funds, however, so they were not given stimulus dollars. The administration attempted to discourage leaders from spending one-time money on personnel. Many principals opted to use the funds for computers, programs like Read 180, and supplemental materials. Most elementary principals augmented existing programs so they could extend services to more students.

The assistant superintendent of business explained that the stimulus was a way to backfill the cuts made to site-level budgets from sweeping half of the SLIBG funds. According to the assistant superintendent, this aligned with the district philosophy of providing flexibility to the schools:

It's really about the students. It's not about having the control at the district level, but we're going to set the parameters and policies as to what you need to do to continue moving forward with test scores and closing the achievement gap. And so here, we're going to give you the resources, so you never have to worry about… saying, 'I can't go here or do that or whatever.' You get the total flexibility. You need to make this happen within what we've established.

This level of trust in principals' fiscal discretion was reflected in the statements of the director of elementary curriculum:

Our district has always had the opinion that each school is unique and has different needs based on the population. What might be successful at one school may not be successful at another. We wanted to keep that impetus of what was happening that was so good that got us out of Program Improvement, because we've been making such great gains that we wanted to ensure that that kept going. We felt that our principals had those visions and could make that happen. So we entrusted that money to them.

Our interviews with both the elementary and high school principals acknowledged this shift in their level of discretion. One elementary principal described the former Tier 3 funds as "more like your general fund now: they are very flexible."

District Actions Regarding Tier 3 Programs

Next we examine how districts responded to categorical deregulation for four specific categorical programs. While 40 categorical programs are included in the Tier 3 flexibility legislation, there are significant differences among districts in the amount of flexible dollars that they received. For instance, in 2009-2010, large elementary districts received, on average, about $400 per student while large unified districts received just under $800 dollars per student. As we show in Appendix A there is also great variation in state funding levels for the Tier 3 programs: Bilingual Teacher Training is funded statewide at $1.7 million while the Targeted Instructional Improvement Block Grant (TIIBG) is funded at about $855 million.

We first examine general spending trends for selected Tier 3 programs between the baseline year of 2008-09 and the first full year of implementation, 2009-10. Then, we return to our interview data to illuminate key budget decisions made for these core programs.

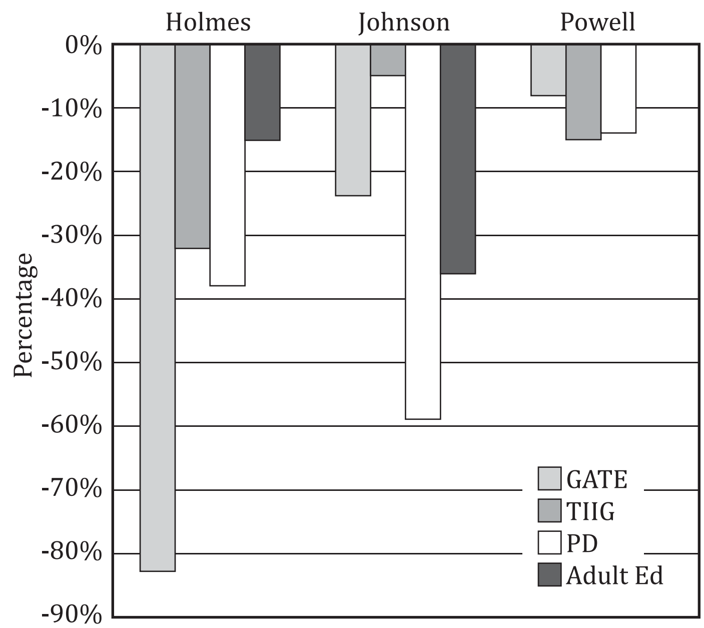
Trends in Tier 3 spending for core programs. We attempted to collect data on spending trends for major Tier 3 programs for each of the 10 participating districts between 2008-09 and 2009-10. Four of the 10 districts decided to no longer track individual programs. Yet, six districts felt it was prudent to continue to track program expenditures, at least for large or highly visible Tier 3 activities.

We display spending trends for three of the six districts in Figure 4.1. The figure illustrates that while cuts from 2008-09 to 2009-10 were severe, they varied among four core programs. For example, the dark bar in the left-hand cluster indicates that Holmes cut spending on adult education by 15 percent between 2008-09 (when Tier 3 was enacted) and 2009-10. Their baseline budget equaled about $113,000 in 2008-09, falling to $96,000 the following year, 2009-10.

Figure 4.1 also shows that some Tier 3 programs in Holmes experienced bigger spending cuts than the legislature's 20 percent across the board cut. The GATE program was reduced 84 percent in 2009-10. Teacher professional development (PD) was cut 38 percent. Johnson shows a similar pattern; adult education was cut 36 percent, and PD was reduced by 59 percent. Powell responded very differently in the four program areas; they made cuts that were less than the statewide 20 percent cut to Tier 3 programs. Adult education was actually protected over this two-year period in Powell. We do not know whether these patterns will hold in the future. But thus far we see that districts vary in the priority placed on major Tier 3 programs.

Next, we examine how district leaders considered and made decisions regarding these core Tier 3 programs. We first report our findings about the four programs selected for in-depth investigation, followed by a description of other programs that were most frequently raised in open-ended data collection.

Figure 4.1. Tier 3 spending in Holmes, Johnson and Powell districts in 2009-10 as percentage decline from baseline in 2008-09.



Adult education. Adult education courses are provided by either school districts or community colleges. For example, in San Francisco, San Francisco City College receives state funding for adult education while the school district receives none. On the other hand, in Napa, adult education is funded through the school districts, not the community college. Which entity provides adult education services is not the result of any statewide policy, but of historical happenstance.

In the wake of Proposition 13 in 1978, adult education was almost eliminated. School districts lost state funding for adult education, and, as a result, districts chose not to offer the programs. As a result of intense lobbying by adult education constituency groups, in 1980 the legislature reinstated funding, initially for seven and eventually for nine program areas. Subsequent legislation reduced the nine programs to six. They are: Adult Literacy/High School Diploma; English as a Second Language/Citizenship; Adults with Disabilities; Career Technical Education/Apprenticeships; Parenting, Family, and Consumer Awareness; and Older Adults.

Within these six, broad areas, districts were allowed to define specific program offerings. Among the 10 districts, adult education generated the most discussion and controversy. Eight of our districts reduced or eliminated adult education services. However, in all but one district, a portion of the academic programming was protected while enrichment programs were cut or required to be self-sufficient. Officials in the district that cut academic programs explained that the instructional services provided by the adult education program were very limited and that the local community college could fill the need.

Two districts eliminated adult education as a program entity while keeping a couple of the program components: credit recovery for high school students and alternative education. Another shifted adult education funds into the general fund and used Regional Occupation Program (ROP) funds to support an agricultural education program, given that the district had recently passed a bond to construct a new agricultural education building and to purchase farmland. In several districts, the deregulation of adult education funds prompted discussion about the role of adult education programs and how those relate to the K-12 mission. The response in Cushing and Johnson was to fundamentally redesign adult education. Leisure and recreational programs were eliminated, while GED, credit recovery, and career and technical education were retained. In those districts that retained adult education programs, these were slimmed-down versions of prior year offerings. Again, some districts chose to eliminate some of the six categories of program offerings that had been required by the *California Education Code*, while one district chose to maintain all six. However, in most districts, courses that were deemed recreational were shifted to community service and offered on a fee basis.

The director of adult education in Johnson regarded flexibility over adult education funds as "an opportunity to create a state-of-the-art adult ed [sic] program." However, Johnson's flexibility to reallocate adult education funds was significantly curtailed by its union contract. In its teacher contract, Johnson guarantees a particular number of full-time adult education jobs to its local teachers' union. Because these full-time local teachers (and union members) working in adult education had guaranteed positions, the district could eliminate adult education programs but had to find positions for these teachers elsewhere in the district. District leaders could, however, lay off the part-time workers, who often taught the more specialized vocational courses. One administrator explained,

If we shrink [adult education] as opposed to wiping it out, like we did now, the only ones we can afford to employ are full-time, local union members. And the management is saying, 'Of course,' but they [the full-time teachers] can't teach those things. They can't do ESL and shop and vocational education. And so the [labor organization representing part-time workers] is the group who is hurt the most. The administration wants to lower that guaranteed job number [for full-time workers]. In fact, we proposed a contract that eliminated any guarantee of local union members to give us maximum flexibility on program design.

The CAO of Johnson noted: "adult education got a big hit, but we also saw that as an opportunity to reorganize adult education. Focus on helping students graduate, on ESL, and some parent education and small amount of citizenship education." Adult education programs in the district were prioritized into three tiers and the "nice to have stuff" (like ballroom dancing) was jettisoned, explained the CAO. Other districts also eliminated adult education services that were deemed to be extraneous to the district's K-12 core mission. Several districts questioned any continuing support for adult education as it was considered to lie outside the K-12 mission.

Gifted and Talented Education (GATE). Six of the 10 districts kept GATE alive in some form. In some cases the program was reduced, but not eliminated. In Cushing, Tier 3 flexibility allowed the leaders to expand GATE by allowing students who previously would not have qualified for the program to participate. In some instances, the district swept the funds and then reallocated some portion of those funds to schools. In two of these districts, the funds were not designated for the gifted program, but were allocated to schools as unrestricted funds, which allowed schools to use the money for various programs and activities.

The GATE program in Johnson was reduced by about 25 percent, but could not be eliminated because it was specified in the collective bargaining agreement. Any significant changes would have required re-negotiating the contract. A cabinet member in Johnson explained the contract included language that guaranteed the district will identify all GATE-eligible third graders, and most of the GATE money pays the salary of a psychiatrist who runs the identification process. Acknowledging the district's difficult fiscal situation, Johnson's superintendent put it simply: "Some [Tier 3 program activities] will be on hold, and some of the funding for GATE will go down as we try to fund other things."

According to a district administrator in Cushing, GATE is a valued and successful program in the district. It has the highest certification that the state offers. In addition, GATE provides access to AP programs, which is also an element of the district's core instructional initiative. As a result, the program is integral to district priorities. For those reasons, GATE was preserved, however it was scaled back to a "bare bones" program. (According to budget documents, about half of the 2009-10 appropriation was swept). The program has been narrowed to focus on training teachers to differentiate for advanced learning, which the district leadership describes as a critical piece of GATE. The district also uses some Title II funds for some of the professional development associated with the GATE program.

While parents and teachers in some districts pushed to maintain GATE, there was no evidence of overt opposition to district decisions to "sweep" funding. In one instance, parents in Brandeis advocated successfully to keep using GATE funding to support the Ballet Folklorico. However, this description from a school site council member in Rutledge was more typical.

They told us to hold off on spending that money and then at the end of the year they swept it. I felt like I got scammed. I think the district got scammed too. I felt that that one group wasn't getting anything. You've got ELAP and school and library, but pretty much all money seems to be going to those at the bottom, not at top. Very little to help those at the top. There still isn't any emphasis to make good better and better best. We're (parents) trying to supplement that and do it on our own through career days or other things.

Targeted Instructional Improvement Block Grant (TIIBG). Responses to districts' allocation of TIIBG funds is complicated by the fact that TIIBG is an ambiguous funding source with no clear state policy goals. The TIIBG program prior to Tier 3 flexibility was a combination of two previous funding streams:

Court-ordered and Voluntary Desegregation and the Supplemental Grant Program. The former reimbursed district costs for desegregation efforts while the latter provided supplemental funds to districts that did not qualify for other, state categorical programs.

The legislature created the TIIBG program to allow districts receiving desegregation money to keep it even if they were no longer under a desegregation order, with the provision that districts target those funds to their lowest-achieving students. The Supplemental Grants Program, on the other hand, provided additional funds to districts (mostly suburban) to be allocated among approximately fifteen existing categorical programs (e.g., transportation, instructional materials). Subsequently, it was folded into the new Targeted Instructional Improvement Block Grant. Prior to SBx3-4, the amount of funding for each district was based on prior year allocation.

The lack of a clear policy purpose for the funding is underscored by the fact that districts do not have any specific priorities associated with the funding. In Powell, officials knew little about the funding stream. Moreover, the amount of allocation varies tremendously across districts. Some districts may receive as much as $1,000 per pupil (one sample district received over $2,000 per pupil), while other districts with similar characteristics might receive only $40 per pupil.

Allocation of Tier 3 TIIBG funds varied with district need. Administrators in Powell shifted TIIBG monies to transportation, while Duvall combined funds with stimulus dollars to pay for a language arts textbook adoption. Holmes swept half of its TIIBG funds and allocated that to various programs while it used the other half to continue operating two magnet schools designed to maintain racial balance among its schools. Cushing swept more than a third of its TIIBG funds and allocated the remainder among various programs including a special high school career program. However, interviewees believed that more pressing needs would probably lead to a loss of funding for this program in the coming years.

Teacher Credentialing Block Grant (TCBG).[6] This block grant, a product of earlier categorical-aid consolidation, was generally swept into district general funds. Yet districts retained some professional development activities that they supported from general-purpose funds. In about half of the districts, decisions about professional development activities shifted from schools to the district office. In Holmes, leaders swept professional development funds and cut activities. In other districts, federal Title II dollars replaced state dollars for professional development or were combined with district general funds. In two districts, professional development monies were swept into the general fund, but some professional development components, buy-back days for instance, were retained because they were in the union contract and thus could not be changed without re-negotiating the contract.

In Duvall and Johnson, it is unclear how professional development funds were used other than that they were designated as general funds. As with other categorical program reductions, there was no reported community feedback about choices related to professional development.

Action on other Tier 3 programs. Beyond the core programs that we identified a priori, we also heard much about additional Tier 3 programs.

School and Library Improvement Block Grant (SLIBG). The SLIBG included funds previously allocated to districts for school library materials and for school improvement programs. In most districts, school improvement and library funds were swept into the general fund. As with other Tier 3 categorical funds, some schools received a reduced amount of

SLIBG funds as an unrestricted allocation. Duvall was an exception to this, in that they kept the funds intact and spent them on textbooks. District responses to flexibility in this area varied. Some districts allocated some portion of the funds to schools so they could stay current with instructional materials. In most instances, schools lost control over those funds.

Instructional Materials (IM). Only four of the 10 districts provided information about instructional materials. One district reported having a carryover of several million dollars, which they shifted into the general fund with the exception of a small portion set aside for replacement books. Interviewees at Cushing noted that the IM fund had been "problematic" because the district received so much money for textbooks that they were unable to spend it (which was the reason for the substantial carryover). About half of Rutledge's IM allocation went to the general fund. O'Connor set the funds aside for payroll. Duvall swept all IM funds into the general fund, took the carryover, and used money from SLIBG for instructional materials and new adoptions. Of the four districts that provided information about IM, three postponed full textbook adoptions for one or more years.

Deferred maintenance. All four districts that commented on deferred maintenance swept these dollars into the general fund. Cushing noted that it had bond monies that could be used for deferred maintenance. The other three districts recognized that it was not a good long-term policy to neglect deferred maintenance, but believed that they had no choice. The assistant superintendent of fiscal services in Rutledge acknowledged it would take several years for the district to "get back on track" with deferred maintenance if, and when, the funding is restored, but that the cuts, "seemed easier because they were perceived to be away from the classroom." The Rutledge board member we interviewed said, "It is one place you'll pay for down the road, but you can get along without it for now."

Student Services. District response to various student service Tier 3 programs was mixed. Cushing swept funds and eliminated Supplemental Counseling and the Pupil Retention Block Grant (PRBG) (presumably the activities supported by the block grant). Sanford also eliminated Supplemental Counseling, swept funds previously allocated for students at-risk of failing the California High School Exit Exam (CAHSEE), and eliminated half of its school safety officers. Rutledge also eliminated the PRBG, Safety and Violence Prevention Program, and Supplemental Counseling—all by the 2010-11 budget. Duvall shifted its PRBG funds to a summer school program to help students who have been retained at grade level. O'Connor kept the Supplemental Counseling program, while Marshall maintained after-school programs with the use of Prop. 49 funds.

Arts and Music. Four of the 10 districts reported that they had swept Arts and Music Block Grant funds and eliminated the positions that those funds supported, though more may have done so. In contrast, Rutledge held back some funds for a roving art and music teacher. In Powell, some schools raised funds privately in order to maintain music and art programs.

Other Tier 3 programs. Three districts reported sweeping the Physical Education Teacher Incentive Funds and eliminating the programs. Two districts reported that the Community-Based English Tutoring (CBET) program was eliminated. In Marshall, the funds were shifted to after-school programs to support English language instruction. In Cushing, CBET was eliminated, but partly reinstated through adult education. In Johnson, the Teacher Credentialing Block Grant was cut by several hundred thousand dollars in 2009-10 with additional reductions of up to 50 percent in 2010-11 for the later program.

> *"Some districts…took the stimulus money and rescinded hundreds of layoffs. Well, I read the criteria of the stimulus money and that was not the criteria."* – Marshall board member

Next we explore district responses to Title I Part A stimulus dollars—another potentially flexible source of funding, arriving at the very moment that Tier 3 flexibility took effect. We asked district leaders and school principals how they interpreted the utility of new Title I dollars and whether they were part of the budget decision-making that occurred over the same two-year period. First we describe district leaders' level of understanding about the purposes and potential uses of these stimulus funds, followed by a description of how districts allocated the funds.

Interpreting the Purposes of Title I Stimulus Funds

As we noted above, school districts were encouraged to spend Title I funds quickly to preserve and create jobs. The guidelines also directed districts to improve student achievement, ensure transparency and make investments that avoided a "funding cliff" when these dollars ran out. We heard widespread confusion about the aims of and constraints around Title I stimulus dollars, both across the 10 districts and among leading staff within individual districts. Many individuals either did not know how these funds were spent or interchangeably spoke about the larger stabilization funds more generally, without a clear understanding about this specific category of Title I stimulus funds. In some cases, even top-level district administrators were unclear about the details of these stimulus funds. For example, one superintendent could not answer our questions and referred us to their CFO for more information. Another superintendent conflated Title I stimulus and stabilization funds throughout the interview. In another district, individuals responded to our questions by describing how regular Title I funds were used along with how they chose to allocate the IDEA stimulus and stabilization dollars.

> *"If we are going to start something that is going to go away in a couple of years, if we can provide something useful in those two years, great. But if we're starting slow and gaining momentum and by the third year we can't continue the program because there's no more money, in my opinion that's a waste. And it's a disservice to the students."* – Marshall administrator

In particular, there was disagreement across districts about the perceived purpose and allowable use of these stimulus funds. In half of the 10 districts, some respondents stated that the federal government did not intend these funds to be used for personnel and other expenditures with recurring expenses; and a few interpreted such use as violating federal guidelines. In Brandeis, respondents believed that the only way to use the funds for teaching positions was if those positions had been cut and the replacement positions were given a different title. "It can't look the same," said one central office administrator. "It has to look different." In this same district, however, other respondents noted that they were unclear how the funds could be used.

In Rutledge, central office administrators heeded advice from the California Association for Federal Programs to discourage schools from using these stimulus funds for personnel, citing a rule of thumb that one does not use one-time money for people. The two principals interviewed in this district clearly understood this message and knew only to allocate these funds to personnel if they could prove that other funds were available to cover the ongoing costs in future years. In contrast, respondents in Cushing reported that the intent of these stimulus funds was to save jobs and therefore should be used for these purposes.

Allocation of Title I Stimulus Funds

Overall, we saw little effort to coordinate use of Title I stimulus funds and Tier 3 funds. The majority of districts treated these as a separate funding streams and made decisions about the use of stimulus funds independent of decisions about Tier 3 categorical programs. In two districts, however, decisions concerning the use of Title I stimulus funds were closely linked to decisions made regarding Tier 3 funds. In both cases, leaders believed the allocation of stimulus funds helped to minimize the negative consequences of decisions to "sweep" Tier 3 categorical program funds into the general fund. Cushing leaders used part of the stimulus funds to hire middle and high school counselors who would have been cut as a result of their decision to sweep the Tier 3 counseling program. In Rutledge, one rationale for allowing schools discretion over stimulus funds was to offset the loss of resources resulting from extensive "sweeps" made to Tier 3 programs.

Even though many respondents across the 10 districts acknowledged that it was not sensible to use one-time stimulus funds for personnel and other expenditures with recurring expenses, five districts still made this decision. At least two districts, including Sanford and Cushing, used the funds to hire teachers and lower class sizes in the lower elementary grades. In Holmes, some of the Title I stimulus funds were used to hire a district-wide Response to Intervention (RTI) specialist. Powell used some of this money to save two full-time equivalent positions, and Duvall used much of the funding for a counselor, instructional assistants, and a principal.

In some cases, respondents cited the economic crisis as one rationale for their decisions to allocate Title I stimulus funds to personnel and felt they had no other choice to prevent further layoffs. Further, most districts appeared to make these decisions reluctantly and, in some cases, with internal opposition. As one central office administrator explained: "The state did a very good job of telling us over and over that this money will go away [and to] not get used to it, but I think when people are hemorrhaging so much they just want to stop the bleeding." This same administrator indicated that the use of Title I, Part A for positions was not her preference:

Stimulus money is like other grants that we have had that have a life. And you don't spend those kinds of money on things. You spend that money on things that will keep on giving after the money has run out. You develop and implement a curriculum. You do those one-time things that will continue to yield something. You build a bridge. You don't buy a car that will continue to have expenses. That is the mindset that I came into it with. You know curriculum reform, instruction reform, let's buy some materials that we can use long after the money is gone. A position is a hungry thing; you will have to keep feeding it. I saw this as a one-time thing, I didn't have a say on that, but that would seem to be the best way to spend it.

Overall, the majority of the 10 districts took a centralized approach to allocating Title I Part A stimulus funds. In five districts, central office leaders decided how to spend the funds, providing school leaders with little to no say over these decisions. In fact, Duvall normally passes regular Title I funds down to schools to use at their discretion, but felt that the stimulus Title I funds came with more flexibility than the regular Title I funds and thus could be channeled more productively at the central office level. One administrator explained,

[Title I Part A stimulus funds] lent itself more to a centralized management style, versus the normal Title I allocations which we do push down to sites. Given this extra money, we could choose centrally which programs to supplement and how to leverage those dollars, instead of spreading it out too thin across all seven Title I schools

so they could sit on it again. Let's spend the stuff!

Three districts provided schools with some discretion over stimulus funds within certain centrally determined parameters guiding use. In Johnson, schools received the funds but were asked by district leaders to set aside a portion of the funds for summer interventions and a portion for professional development to support a district-wide math initiative. Schools had complete discretion over use of a third portion of funds. In Holmes, district leaders decided to use stimulus funds to advance the district-wide reorganization of Response to Intervention, but allowed schools some discretion over which training and materials to purchase. In Cushing, low-performing Title I schools were required to use these stimulus funds to hire teachers and lower class sizes in grades K-3, while other schools had more discretion.

Only two districts—Brandeis and Rutledge—passed the majority of stimulus funds through to Title I schools, allowing them to make allocation decisions with very little guidance from district leaders. Brandeis leaders, for example, felt strongly that these funds were a "lifeline for principals." According to the superintendent, "We have continued to step aside and let the Title I money and augmentations go to school site councils. And actually, a principal would tell you they have absolute decision-making over that. That may be the greatest source of discretionary dollars that we have."

Finally, it is worth noting that there was some variation in the extent to which districts spread out the use of Title I stimulus funds over time. Sanford, Powell, and O'Connor chose to use all of their funds in one year. A respondent in one of these districts said that because of the many reporting requirements it was easier to use the funds at one time. Other districts spread out the use over time. For example, Cushing spread out the funds evenly over two years. Duvall used some in 2008-2009, the majority in 2009-2010, and then had a small carry over for 2010-2011. Another district figured out a way to spread out use over five years, indicating that funds were "spent on the books" in one year but actually used over a longer period of time.

PACE

Section 5
Decision-Making Processes that Guide District Allocations

Backing up from the budget decisions made by districts, we also examined the deliberative processes that led to these decisions around Tier 3 dollars.[7] These processes, which largely though not exclusively unfolded in district offices and with school board members, varied across the 10 districts. Our interviews and document reviews focused on which stakeholders were involved and what sources of information may have shaped these decisions. The following sections examine each of these areas.

District Decision-Making

Although in many districts a broad group of stakeholders participated in setting goals for the district or debating budget cuts and priorities, the superintendent and senior staff largely controlled budget decisions, which then went to the local school board for approval. This proved particularly true for decisions regarding the use of Tier 3 funds.

Stakeholder engagement. Some districts engaged in formal, structured processes to solicit stakeholder input on budget cuts, most notably O'Connor, Powell, Cushing, and Rutledge. For example, in 2009-10, Powell leaders visited schools to identify site leaders' priority programs and expenditures, noting which were most related to the "core" set of activities affecting their main mission of educating students. Leaders then solicited similar input from staff and parents at a series of meetings. All of this input informed the ultimate prioritization of three "tiers" of cuts. A district administrator explained,

What we tried to do is put as many budget reduction ideas as we could on the dart-board and then take those ideas out into the community to get input from the community on how we should prioritize those things. It was really a community-intense process. We had a dozen meetings at all of the school sites. Community members attended. They were very well attended by staff, particularly by teachers. Through that process, we prioritized the reductions.

A principal in Powell confirmed the inclusive nature of this process:

We were involved. The whole district was involved. Teachers. The CFO gave a list of proposed reductions last year, passed out sheets, and had people indicate what they would get rid of from that list. These were the next areas that we would cut if we needed to reduce our funding. This was presented to the board in January of this year. These were Administrative Council meetings, and at every school site for the staff. All staff – classified, certificated. It was pretty transparent. Then, the final decision was made by [sic] Cabinet.

Similarly, O'Connor held parent workshops in which district leaders shared a list of potential cuts developed by the school board and asked parents to rank them. Cushing leaders administered surveys to teachers, administrators, classified staff, and parents to identify their priorities. This district also organized a budget advisory committee with a wide variety of stakeholders, including community and parent groups, management, and unions, which came up with their own list of budget priorities. Rutledge also sponsored a budget advisory committee in 2008-09, which came up with a list of budget priorities and suggested cuts. Due to the dire economic situation, however, officials did not reconvene the group in 2009-10, citing the need for major decisions around layoffs and school closures to rest in the hands of district leaders. Many of these efforts to solicit stakeholder input were instigated when either a new superintendent or new board members took office. Also, most did not directly address stimulus or Tier 3 funding decisions but instead, cuts that could be made in general.

Among our 10 districts, there was wide variation in the nature of specific stakeholder involvement in district-level budget decisions and the extent to which they participated substantively in decisions. In many districts, the involvement of stakeholders appeared to represent one-way communication efforts to ensure transparency about the budget (e.g., sharing decisions at board meetings or community forums). In a few districts, stakeholders appeared to provide substantive input into the decision-making process and there was evidence of direct influence on district decisions. In Powell, for example, administrators attribute the decision to preserve class-size reduction in lower grades to community and teacher input and also noted that community feedback prevented further cuts to adult education.

Board members. In some cases, board members appeared to easily approve administrators' recommendations and were not substantively involved in setting those priorities (e.g., Marshall). In contrast, board members in other districts were more involved in setting the priorities and making the decisions. For example, in O'Connor, the election of new board members led to what many described as a shift from district-driven to board-driven decision-making and control. One central office administrator explained this shift and the increasing demands for information among the new board members during meetings:

If it had been the old board, we would have come and said, 'Here's our recommendation. Here's [sic] the priorities. Here's what we want.' Then they would have given the blessing and moved on. But when you have a new board, and a new configuration of a board, you have to learn how they want the information presented, and they have to learn how they want the information presented. They weren't sure. So as they were trying to talk out loud about how they want to get this information, months are slipping away.

Labor unions. In three districts, the unions participated on formal budget advisory committees. In Sanford, administrators asked all three unions (teachers, administrators, classified) to contribute a certain percentage cut of their previous year's compensation package to help balance the 2010-2011 budget and allowed them to decide how to achieve this. As a result, the teachers' union was poised to play a major role in deciding whether to eliminate class-size reduction, require furlough days, or change the level of benefits. In Rutledge and Cushing, which engaged the union in a budget advisory committee, the union leaders interviewed did not feel that efforts to solicit input were genuine. One union leader suggested that the committee (and survey of stakeholders) were merely for show to justify district actions. In contrast, in Holmes, the teachers' union met regularly with central office leaders and participated in making decisions around Tier 3 flexibility. There was little indication of substantive union involvement in our other sites. In fact, union members in Marshall were upset that they and site-level staff were not involved in the decisions concerning the use of stimulus funds.

School staff. Involvement of site leaders varied widely across the sites. In a few districts, principals appeared to be substantively involved in informing district-level budget decisions. For example, a new principal advisory group in Johnson was active at the time of our visit and interviews indicate that central office leaders responded to this input. As noted above, principals in Powell also believed they contributed to decisions about budget cuts during meetings and through surveys. However, in many other districts, we heard from principals that they were not consulted and in some cases simply informed about budget decisions. For example, one high school principal in Cushing reported,

Right now, the fiscal constraints for this district and every other district in the state of California are deeming it that they [district leaders] are taking a very heavy-handed approach to expenditures of income and sometimes our input is not taken into account.

Regardless of the nature of stakeholder involvement, in many cases these efforts reflected a deliberate district-level strategy to garner support for budget decisions. In the majority of the 10 districts, respondents conveyed a strong commitment to ensuring transparency regarding the budget and decisions made about cuts. For example, the new superintendent in Duvall was working hard to communicate with the union and sites about budget decisions and to provide them with information that may not have been shared publicly in the past. These efforts were believed to facilitate buy-in for new reforms.

Similarly, leaders in Powell believed their efforts to share information about the budget with the community on their website and in meetings built widespread trust in the district and support for their budget decisions. A board member in this district reported:

[I]t was a positive process…Even though some people aren't necessarily happy, they understand it. They feel like we're all in this boat together, and we're doing the best we can. Because of the process and because of how much communication and transparency we've had, that has helped.

Several respondents in this district attributed their success at building support to leaders' ability to translate complicated budget information into digestible forms and to explain ways in which cuts affected services to students. In Cushing, leaders also believed that the lack of opposition to their ultimate budget decisions resulted from their concerted efforts to solicit input and communicate clearly with all stakeholders.

"If you have a sweetheart program that nobody wants to give up, then how flexible can you be?" – Powell administrator

"When you're a small district like this, it's hard enough to fund a lot of different programs…we don't want to lose the ones we have." – O'Connor administrator

In contrast, there were several districts that did not utilize a public process for decision-making or invest in efforts to promote transparency. For example, leaders in Marshall said that they took into consideration community values but did not formally involve community members in the decision-making process. Others may have sponsored outreach efforts to share final decisions, but did not engage in formal solicitation of input.

Decisions about Tier 3 Flexible Funding

As noted, superintendents and other top administrators were the primary decision-makers about the budget and particularly about the use of Tier 3 and stimulus funds. In Marshall, the superintendent appeared to operate behind the scenes and reported moving quickly to make decisions before advocacy groups could form and derail his efforts. In Johnson, the superintendent and chief financial officer were said to dominate the decision-making process. According to a board member, "The specific actions about moving some of the Tier 3 funds were done by the [superintendent]. In my opinion it came down to, 'We need money and we need it now.' It was more unilateral." Several central office administrators in this district even commented on feeling excluded from the process and caught off guard by decisions made. In this district and in Sanford, there appeared to be some divisions within the central office, with instructional leaders feeling that fiscal leaders were making decisions without enough attention to instructional priorities.

In Powell, the cabinet was said to make most of the decisions and with regard to stimulus, and many other respondents did not even know how the funds were spent. The superintendent in Rutledge acknowledged making all decisions regarding Tier 3 funds with cabinet members, noting that, "I don't want to push the hard decisions to the line managers. I believe it is a cabinet and board decision, of course with communication to principals." Similarly, regarding stimulus funds, another superintendent explained, "It was a collaborative process, this was something to be shared, but I was clear that I was making the final decision."

School Decision-Making

In several districts, we were told that the new state guidelines concerning Tier 3 funds allowed principals to bypass prior requirements to include all Tier 3 resource decisions in the Single Plan for Student Achievement (SPSA) and gain approval from School Site Councils (SSCs). As a result, in theory, principals had greater discretion to use the Tier 3 funds without involving other stakeholders in the decision-making process.

In practice, some principals seized the opportunity and relished the new freedom to make these decisions on their own. These principals generally appreciated this flexibility, not because they disliked obtaining input from others or feared that SSCs would interfere with their plans (because in most cases, SSCs generally approved principal recommendations). Instead, the flexibility afforded them the ability to more quickly respond to school needs and avoid the bureaucratic paperwork and planning tied to the old system. One elementary school principal in Johnson greatly appreciated this new flexibility, noting: "You don't have to wait for a monthly meeting and you can just make the decisions about the money immediately." She added,

For the most part the SSC listens to and takes my professional judgment on how to spend money. I present how the funds should be used and nine out of 10 times it will be allocated [in that way]. However to get [the funding] processed it's not just that. You have to type up all the minutes. Then you have to type up an amendment to the school plan... then have to get the SSC chair back in to sign that… so it's not only the delay of getting the idea approved. Then you have to spend a lot of time doing the paperwork.

Similarly, an elementary school principal in Rutledge reported that the ability to bypass the SSC provided her with the ability to create a reserve fund for quick-response:

We try to not spend our flexible money—the slugbug [School Library Improvement Block Grant] and the GATE—for two reasons. One, being that if we need something for the school; the other part of flexibility with those funds [is that] we don't have to go through the process of putting it in a SPSA plan and going to the school site council. We do share what we want to do with that with our school site council, but there is not all the protocol you have to do with the other categories, it's almost treated like general fund. So we try not to touch that unless … If we can fund it other ways we don't want to touch it so that if we need that flexibility we have it…[In the past] we always had to put [plans for spending Tier 3 funds] in the plan and it had to be approved ahead of time before you could even spend it, and you really had to think ahead and if things come up then you get yourself in trouble.

Other principals in all three districts, however, adhered to the old protocol of involving SSCs in their Tier 3 allocation decisions in the spirit of collaboration. For example, unlike his elementary school colleague quoted above, a high school principal in Rutledge recognized that he could make Tier 3-related decisions on his own, but decided to bring these decisions to the SSC for approval because it "seemed to be the fair thing to do" and he was "trying to be collaborative with teachers." Similarly, an elementary school principal in Powell said "I still run everything by them [SSC] out of respect for this little operation we have going on here." Similarly, a Duvall central office administrator reported that principals continued to involve their SSCs to ensure support for these decisions:

I think the principals are still trying to get buy-in from their site councils…They are still responding to older regulations. Just trying to involve parents and have the conversation about spending, even though they don't really have to, really. They do know that, but still value the method of involving parents in resource allocation.

In contrast, in four districts, significant "sweeping" by the district left little Tier 3 funding available at the site level and no real perceived opportunity for principals to take advantage of this new flexibility regarding decision-making. "When you can't buy anything, it actually makes decision-making easier," said one elementary school principal in Duvall, "There are no decisions to be made." Respondents in several other districts similarly noted that principals were receiving fewer discretionary dollars and opportunities to exercise greater control over decision-making. Not surprisingly, all but one of these four districts was categorized as fiscally unhealthy.

Information Sources and Networks

When asked where they received information and guidance about Tier 3 flexibility, central office leaders widely cited a few key organizations. First, the superintendent and/or chief financial officer in all ten districts cited School Services of California (SSCA)[8] as a key source of information about Tier 3 reforms. This was, in fact, the only entity cited by all ten districts.

> *"We needed to learn about this quickly. I was going on the web and googling everything."* – Cushing administrator

For example, the Brandeis, Rutledge, and O'Connor superintendents all reported getting key information by attending SSCA conferences in 2009. The O'Connor superintendent noted that SSCA warned the district that it might not be able to make payroll in May 2010 if it did not sweep Tier 3 program dollars to supplement the general fund. Others reported gaining valuable explanations of the budget and new regulations from SSCA. For example, the chief financial officer in Sanford explained, "I always start off listening to the governor's address. But when he says, 'I'm cutting $6 billion dollars from education,' how does that affect us? What does it mean? School Services will take that $6 billion and break it down for us."

Several public organizations were also cited as important informational resources, although less frequently than SSCA, including: the County Offices of Education (cited in seven cases), the Association of California School Administrators (six cases), the California School Boards Association (five cases), and the California Department of Education (four cases). Officials in five districts cited their peers in other districts as information sources. Interestingly, in four of these five cases, the district enrolled fewer than 10,000 students, suggesting that peer networks were particularly important sources of information and advice in smaller districts. For example, district staff in Brandeis mentioned feeling isolated from other districts, and the superintendent, chief financial officer, and chief academic officer each meet monthly with their counterparts from other districts in the county.

Within the 10 districts, information about Tier 3 reforms appeared to diffuse primarily through district meetings or directly from top central office leaders. For example, the district meetings or trainings at which Tier 3 information was shared with school and district leaders were delivered in several formats, including otherwise-scheduled meetings among principals (Holmes, Cushing, Rutledge) or budget or community forums at individual school sites (Powell, O'Connor, Duvall). In O'Connor, in addition to holding community forums, the district hosted an event where the chief financial officer and superintendent trained principals and school secretaries on the various revenue streams and their differing levels of restrictions. The elementary principal we spoke with believed the training session was useful. Similarly, the high school principal in Powell reported receiving clear information from the central office: "We were involved. The whole district was involved... [The Tier 3 process] was pretty transparent."

The other main within-district sources of Tier 3 information were central office staff members, including the chief academic officer (cited in five cases), the chief financial officer (four cases), and the district categorical director (three cases). Staff in four cases, including both larger and smaller districts, reported relying on their colleagues within the district; for example, interviewees in Cushing reported regularly relying on their peers' knowledge, while the Sanford elementary school principal we spoke with referred to fellow principals as being "like family" who lunch together and make decisions after meetings at the central office.

Section 6
Consequences of Tier 3 Flexibility

As described, fiscal deregulation in the wake of sharp budget reductions allowed districts to balance their budgets, protect shrinking reserves, and pursue greater efficiencies. By allowing districts to backfill cuts to their general funds, districts could focus on local priorities. The general consensus among interviewees was that flexibility helped to minimize layoffs and sparked discussion of how spending priorities might be adjusted. In this section we describe how district leaders and other local stakeholders reported the consequences of these budget decisions during the first full year of implementation. We also report on how district-level debates over the shift in Tier 3 and collateral spending occasionally sparked political push-back and strained relations with key stakeholders. These early results suggest what consequences may emerge if deregulatory policies persist or widen in coming years.

Consistent with findings described earlier, the downstream consequences of budget decisions vary among our 10 districts, in part flowing from the four distinct patterns of response detailed in Section 3. We did observe that relatively unhealthy districts were more likely to sweep Tier 3 categorical funds to backfill general-fund shortfalls. This helped to minimize teacher layoffs, yet left Tier 3 programs more vulnerable, compared with districts that retained support for a greater share of Tier 3 activities.

Reductions in Services, Programs, and Staffing

Other than maintaining fiscal solvency and pushing efficiencies, another consequence of Tier 3 flexibility was the reduction of specific programs, services, and associated staff. The cuts were situated in a period of significant cutbacks, and this served to moderate controversy and push-back from local stakeholders. Taking advantage of flexibility to sweep funds from Tier 3 categorical programs, districts often reduced these services for students. Of course, reductions cannot be attributed to fiscal deregulation alone, but instead, are best understood as resulting from the confluence of policy changes in conjunction with the current economic climate.

"If we didn't have this flexibility, we would have laid off hundreds of people last year, to be very honest with you. Our programs would have taken a huge hit on the quality of the programs. We would not have the range of supports that we have for our kids today." – Cushing superintendent

"We just focused on saving as much as we could so we could keep our teachers and staff employed." – O'Connor administrator

"Some of the cuts just came as efficiency measures. 'Let's look at how we can run the program more efficiently so that we're still providing almost as many services, but we're just doing it more efficiently.' Allocating our time better, for instance." – Powell superintendent

Adult education experienced significant cuts in eight of 10 districts, reported above, including cuts to or elimination of adult English-as-a-second-language (ESL) courses and other adult education services. Powell's adult education administrator reflected that declining services are particularly challenging in light of the state's economic situation, in which many unemployed adults are looking for ways to boost their skill levels. She emphasized that the impact will become more apparent in the next few years:

I think we haven't even seen all of the consequences yet. I think the state is going to see it in the next few years. Right now, one out of four adults can't read a newspaper. More with unemployment, we have people knocking *down our doors, trying to get more education, and we give them less...So we see it, but what I think is going to happen is that society will see it a lot worse. You're going to see a lot more 'have-nots' out there.*

As noted in the section on the implementation of flexibility, many districts reported a reduction in other services such as supplemental counseling and GATE instruction. At least three districts, perhaps more, have postponed textbook adoptions. Nine of 10 districts swept most or all of their deferred maintenance matching funds, prompting several administrators across our sample districts to predict long term consequences if flexibility and revenue reductions continue.

As for staffing reductions, it is not surprising then that the greatest effects were reported to occur in adult education hours and positions. In Duvall, over 15 permanent adult education instructors were given reduction in force notices for 2010-11. Most of those teachers were eventually retained by the time of our interviews, but their positions were reduced to fewer than 18 hours per week, the minimum threshold for "permanent" status. Johnson adult education instructors were also hit hard by the sweeping of funds, and our interviews in the late spring indicated there would be about 30 fewer teaching positions in 2010-11. As noted earlier, the part-time teachers, who are represented by a different union than the full-time adult education instructors, were the most affected. In Holmes, English-language development instruction time was cut from twelve to six hours per week, also impacting the hours offered to employees.

In other areas, at least three districts cut art, music, and physical education teachers, and counselors faced reductions in at least three districts. Many districts, however, had eliminated librarian positions and arts and music teachers in cuts prior to flexibility. Sanford planned to cut over 10 librarians [though it is unclear if this was eventually approved by the board]. In Powell, the district was uncertain if the librarian positions would be preserved. Although stimulus dollars and a community non-profit had managed to save positions and Powell library services through 2009-10, several respondents indicated that funding for 2010-11 would become unsustainable.

> *"We still have so many conversations, so to say it has saved administrative time—it really isn't true. Conversations with more constituencies than usual."* – Cushing administrator

Reductions in Administrative Costs

One argument for fiscal deregulation is the potential savings that result from no longer having to monitor programs and closely account for how dollars are spent. In nine of the 10 districts, however, most leaders stated that Tier 3 flexibility has not reduced administrative costs. Interviewees in the 10 districts had varying perspectives about the savings of deregulation. Most fiscal administrators attributed the lack of administrative savings to the local decision to continue tracking Tier 3 categorical spending, often at the advice of their county office of education. The chief financial officer in Cushing, for example, believed that if there were certainty that Tier 3 flexibility would not sunset, there would have been less administrative work required and some potential savings. Knowing that the district may have to revert back to the individual restricted funding streams, however, prevented this from occurring.

That said, four of the 10 districts no longer tracked spending on previously distinct Tier 3 programs. The two years of spending data that we collected detail significant declines in support for full-time equivalent (FTE) positions linked to core Tier 3 programs. These staff cuts, in part, pertain to teaching posts, especially in adult education or transport posts earlier supported with TIIG funds. Still, the magnitude of FTE cuts suggests that some administrative posts were eliminated in the wake of Tier 3 cutbacks.

Some respondents commented on the increased administrative time and focus required by the shift to a more flexible system. For example, two administrators in Holmes believed that clarifying priorities and determining the best use of flexibility to maintain solvency meant a tremendous investment of time and energy, which they felt detracted from time spent advancing the district's instructional mission. The superintendent in Holmes described the second half of the year as almost entirely focused on the budget. "From my perspective…first semester we can do instructional work related to the strategic plan. And we get a little bit of time second semester with our principals meetings, but other than that, [the] second semester we're focused on nothing but budget-cutting."

Many administrators explained, however, that this initial investment of time and energy could potentially lessen in future years should the flexibility continue, because local priorities and community input have now been established. District administrators have spent a considerable amount of time in the past two years working to develop priorities and create a public understanding of the budget crisis and strategies required to maintain solvency.

> *"We were able to negotiate five days from our teachers for this year and for next year, which is huge for us, but it is only for two years. So that third year, I have to add five more days back to the calendar."* – O'Connor administrator

District Relationships with Labor and Community Groups

When discussing the consequences of Tier 3 flexibility, many respondents commented on the effects of these decisions on relationships with key stakeholders, especially trustful interactions between district leaders and labor unions, school principals, site councils, parents, and community activists. Once again, the reported consequences are linked not only to Tier 3 reforms but also to broader fiscal exigencies and a climate of budget cuts.

District-community relations. Although Senate Bill SBX3-4 required that districts hold a public hearing to discuss flexibility with Tier 3 categorical funds, all 10 school boards moved quickly to approve the ability to exercise flexibility with no reported public opposition. In subsequent years, every school board readily reauthorized flexibility with Tier 3 funds without protest from stakeholders. The general sense was that districts and parents perceived flexibility as a means of remaining solvent in a time of significant cuts.

As noted earlier, although many districts received community and employee feedback during the decision-making process, once final decisions were made, most districts reported minimal outcry. The Sanford superintendent characterized parent response as demonstrating a degree of "resignation." According to the superintendent of Powell, relations with the community were not strained because they seemed to attribute the reduction in services to the state budget crisis, rather than fiscal mismanagement.

In districts that received extensive input from a variety of stakeholders, administrators ascribed the lack of outcry to appreciation for their attempts to honor local concerns. The board president of O'Connor noted, "I think that the community was satisfied with our district priorities because we got a lot of input from them. Since that was driving the budget, then they felt that sweeping those [Tier 3 funds] was more in line with our priorities." The superintendent in Powell echoed the sentiment that Tier 3 choices did not create significant negative consequences for their relationship with their community:

Everyone was feeling pretty well involved. I think the *greatest frustration was certainly around the state. It was not around what we had to do in this district. It was around government budget cuts. We were just trying to figure out how to patch things up as best we could, and I think that people were thankful for that.*

In fact, the most notable areas of parent and community feedback in our sample were over issues unrelated to Tier 3 categorical funding. For example, many district interviews highlighted vocal outcry surrounding the preservation of class-size reduction, layoffs, transportation, or furlough days.

District-union relations. In seven districts we visited, the relationship between district leaders and union leaders was strained by the depth of required budget cuts. Only one district reported that these relations were discernibly intensified by debates over Tier 3 programs, including cuts made to adult education in Duvall. "You know, we have a pretty good and healthy relationship," explained one Duvall administrator, "but when you get your jobs cut or hours reduced, it causes a lot of tension, and some of that frustration is directed at administration." In the other districts that noted deterioration in union relations, the issues centered primarily on furlough days, class-size reduction, and/or layoffs. Another district experienced tension with their bargaining unit as a result of the administration's interpretation of how Title I stimulus dollars could be spent.

In Powell, O'Connor, and Holmes, district administrators commented that their relationships with the unions were positive, even improved. From their perspective, the budget crisis provided a common obstacle that could be overcome through a collaborative effort, a mission facilitated by categorical flexibility. These three districts were among the five smallest in our sample. An administrator in Holmes stated, "I think if anything, it's strengthened our relationship with the association. When we have money…it's always the game of who's going to get the money. And now we've come together around a problem that we've all agreed upon."

The HR director in O'Connor also boasted about the collaborative relationship between the district and the teacher's bargaining unit, saying,

The teacher's union in this district is phenomenal in terms of what they do in working with us, so there's [sic] never any games. They're just realistic. We say, 'Here's the pot of money we have; here's how we have to get through the year; here's what it looks like two years out and three years out. Here's [sic] all the things we want to do to save your teachers; here's [sic] the other cuts we're making in other areas, but we need five days off the school-year. We just do.' Then, there's still a little bargaining that goes on, but it's really so genuinely trying to save people's jobs on both ends, that it's a good relationship.

> *"If you totally dismantle [a program], how difficult will it be to rebuild? Or do you scale back to minimum level, with infrastructure in place?"* – Cushing administrator
>
> *"I wouldn't make a decision today or not run a program because it might be gone in three years. All of programs may be gone in three years. Half of our budget is grants that are year-to-year. We're in the business of working in the now and hoping for the future."* – Powell administrator

The school board president in Holmes echoed the sense of shared purpose, "They [the union] understand the problems, and we work together -- shoulder to shoulder -- to try and work things out."

Looking to the Future – Worries over Long-term Consequences

When asked to describe consequences they attribute to Tier 3 categorical flexibility, several administrators acknowledged that many of the effects might not be visible yet. Some felt that it may be simply too early in the implementation to fully understand and see the impact on districts and schools. This is especially true for decisions made for the 2010-11 budgets, given that our interviews were conducted in the late spring/early summer of 2010. For example, administrators from two districts that eliminated Grade 7-12 counseling for the following year, foresaw greater feedback from the community once the impact of those cuts was felt by the students.

In several interviews, district leaders and local stakeholders expressed concern about the confluence of increasingly scarce revenues and greater district authority to set priorities, occasionally with little time to make mindful decisions or encourage healthy civic debate. Two specific concerns appeared to reoccur across several districts.

Increased dependence on parents and community groups for revenue. In four districts, parents and foundations were reported to be filling in the gaps made by budget cuts due to the sweeping of Tier 3 programs. We heard several reports of volunteers who essentially staffed art, music, library, and GATE activities, or worked alongside credentialed staff. Parents and community organizations were commonly called upon to purchase basic school supplies. In O'Connor, parents and teachers are fund-raising at the site level for essential classroom supplies, like paper. As a result of sweeping the School and Library Improvement Block Grant from discretionary budgets into the general fund, several districts reported difficulty in providing classroom supplies for teachers.

Two Sanford principals spoke about the rising pressure to raise private dollars to provide traditional programs and services that are not permissible with the restrictions of Economic Impact Aid (EIA) or Title I dollars. Rather than relying on parent fund-raisers at the site level, an elementary principal in Powell is becoming more aggressive about pursuing grants. The district has also actively sought community partners to pay for arts and music programs after the block grants were swept in Powell. Actions like these prompted a foundation leader in Holmes to express concern that districts are becoming increasingly dependent on foundations and parent-teacher organizations to pay for basic supplies and services, even though these groups were originally developed to provide enrichment opportunities:

It concerns me a little bit [that] PTAs are becoming funding sources. In one school, they are funding the art department, including the cost of the teacher. The whole thing. That's admirable. My concern is that districts will become dependent on those dollars. Whether it is the PTA or education foundation, the intent of those funds is to supplement rather than become a line item.

The dynamics surrounding private fund-raising stem from the overall deterioration of education budgets statewide. Our findings also suggest that programs not protected by categorical earmarking and rules may come to depend more on fees – as with adult education -- or private revenues.

Equity concerns. Multiple administrators across districts expressed concern that long-term flexibility may lead to equity issues, both in regards to district funding from the state, as well as support of disadvantaged students. These comments generally came from districts with a large proportion of students who qualify for Title I funding, and often centered on discussions of the impact of "flexing" TIIBG dollars. In Johnson, a cabinet member noted that some districts have greater expenses for police and security, which eat up the general fund budget disproportionately, when compared to suburban districts.

Equity issues for traditionally disadvantaged students were another concern. The CFO in Johnson was particularly worried about the potential for districts to shift TIIBG money away from the children the block grant was initially intended to support:

[TIIBG] used to be voluntary desegregation dollars. Folks that were really impacted, you took those dollars to take care of that. With the [Tier 3 flexibility], you don't really have to [direct it to those kids]. The question is: Should you use other dollars to target those kids? Are you flexing those and then not doing those kinds of things?... We've got a diverse population and we have to service all of these kids. We're going to focus on the neediest kids. And the ones who have not done so well [in our district] are black males. [We may be] the most improved district in the last five years, [but] the disparity between white kids and black kids hasn't shrunk.

In Sanford, the superintendent was afraid that sweeping funds like TIIBG would have long-term impact on economically disadvantaged children and expressed hope that EIA and Title I would remain restricted funds used to target those students:

I have difficulty believing that monies that are targeted towards disadvantaged youngsters, socially or economically, will go totally to them if left to the devices of school districts. I think a portion will go, but not what's earmarked for them, especially in these days…I just don't have that confidence in the current governance structure that we have, that their rights would be protected if we were to put those dollars in, or Title I dollars, into a block grant. For some reason or another, it always happens that those who have the least clout get hurt the most. I think it's our responsibility to protect that, so long as we can.

Several district leaders and local stakeholders also worried that non-English speaking families would be hit hard by Tier 3 cutbacks, especially regarding adult education. In many cases, teacher layoffs hit young teachers, who were concentrated in predominately Latino schools. While district leaders were attempting to lift the achievement of these students or advance the English literacy of their parents, the necessary sweeping of Tier 3 dollars into the general fund resulted in shrinking targeted programs.

Section 7
Factors that Shape District Responses to Fiscal Deregulation

This section examines the conditions and factors shaping how districts responded to Tier 3 flexibility, including district contexts *prior* to the enactment of Tier 3 deregulation and factors operating *concurrently* on district decision-making. Across the 10 districts, we have already detailed the four discernible responses to greater flexibility: retrenchment and backfilling cuts; rethinking priorities among Tier 3 program activities; gathering Tier 3 and other categorical aid to sustain new initiatives; and the variable sharing of fiscal flexibility with school-level leaders. What prior conditions within districts, along with factors unfolding concurrent with Tier 3 implementation, help to explain the paths that were taken by individual districts? This is the question we examine next.

Capturing consistent patterns in the behavior of district leaders, each working under differing local conditions, proved challenging as we analyzed our interviews and field notes. Expanding on the conceptual framework introduced above, Figure 7.1 enumerates the explanatory forces that proved most salient across the 10 case districts. We specify prior district conditions and factors concurrent with the budget decision-making process in 2008-09 and 2009-10, as reported by district leaders and other stakeholders. Influential prior conditions, well in place prior to February 2009 enactment of Tier 3 flexibility, include family *demographics* and *student achievement* levels; earlier commitment to *instructional improvement* efforts; prior budget reserves and *fiscal health*; district *size* (enrollments and organizational complexity); and the stability or recent arrival of fresh *leadership*.

Factors operating concurrently with the implementing of Tier 3 did overlap with prior conditions in some cases. Instability in leadership and the presence of a new superintendent, for example, played an influential role in budget decision-making in three of our districts. Still, four factors reportedly arose as Tier 3 implementation was getting underway. These dynamics include the fact that Tier 3 came with mid-year budget cuts, ongoing fiscal uncertainty, and *urgency* to implement; the perception that legal *mandates* or persisting student needs required that some Tier 3 programs be continued; the ways in which Tier 3 programs were intertwined with *labor contracts*; and the influence of *local interest groups* and community organizing.

Ultimately, we cannot make strong causal claims that each factor directly led to one of the four district responses. Nor did each factor operate in similar fashion or with comparable magnitude in each district. After all, we only examined decision-making inside 10 of the state's 900-plus school districts. We did find, however, that a portion of these prior conditions and concurrent factors commonly operated within the 10 study districts. They may operate in other districts as well. Our Year 2 survey of district leaders statewide will examine this question of generalizability.

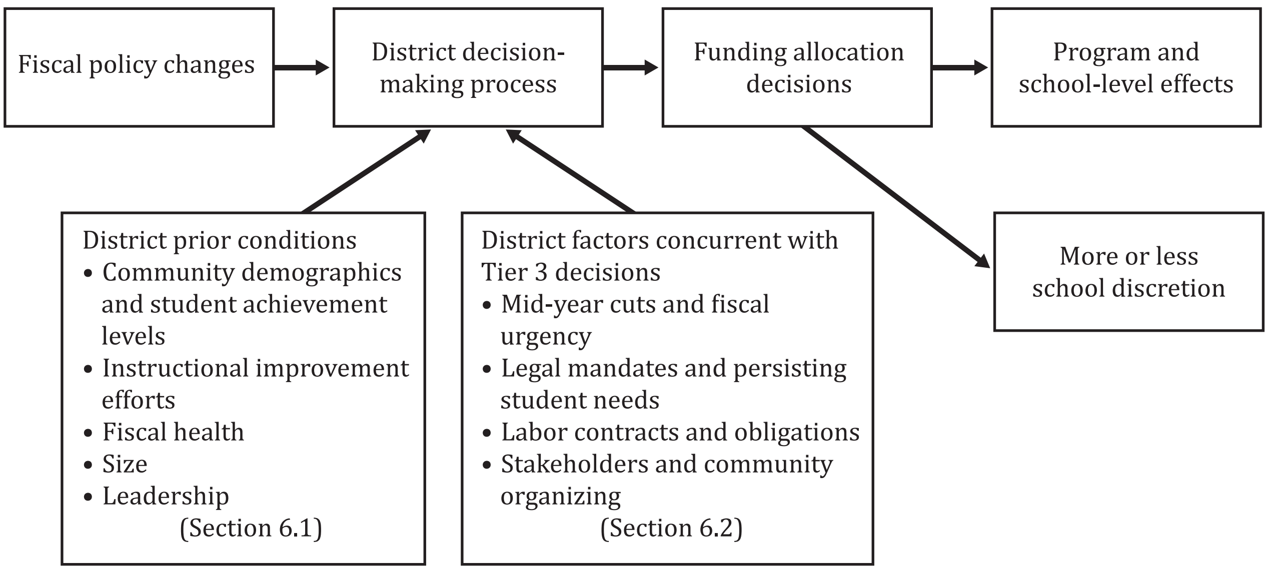
Tracking the logic of the conceptual model, we begin with the local conditions that reportedly were in place before enactment of Tier 3 flexibility.

Prior District Conditions

Local conditions mattered a lot as district leaders struggled with budget cuts and variably utilized Tier 3 flexibility. This is not surprising, given the diversity of California's communities and school districts.

Community demographics and student achievement. Pupil demographics varied widely among the 10 study districts. Some districts serve many children from low-income families, including Cushing, Holmes, and Johnson, where more than two-thirds of their schools receive Title I funding. Two districts showed robust

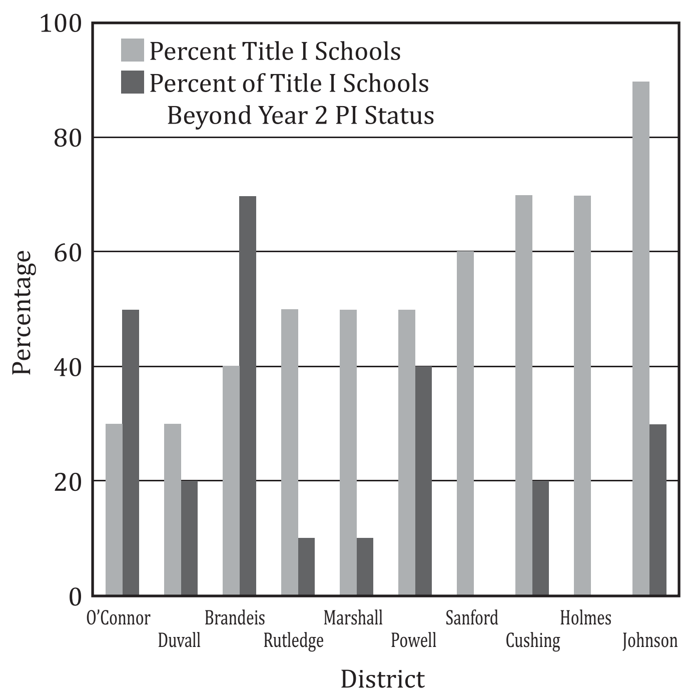
Figure 7.1. Basic causal sequence of how fiscal policy change may shape district and school organizations.



test scores and were not currently identified for district-wide PI status. The bulk of districts (seven out of 10), though, were identified for district-wide PI (see Table 3.2). Figure 7.2 lists districts by the percentage of schools district-wide participating in Title I, and the share of district Title I schools beyond Year 2 Program Improvement (PI) status under NCLB in 2009-10. Neither Sanford nor Holmes had any Title I schools beyond Year 2 PI status. At least half of Title I schools in O'Connor and Brandeis, on the other hand, were in Year 3, 4, or 5 PI status.

These conditions were at times associated with the salience of school accountability pressures, including interest in aiding certain subgroups of students who affect the district's propensity to hit achievement growth targets. Concern over the performance of poor and English-learner subgroups in particular led some district leaders to align funding with the learning needs of these students. As a district, Brandeis recently began to require all schools to fund a bilingual community liaison position, one part of its effort to address

Figure 7.2. Percent Title I schools and Title I schools beyond Year 2 Program Improvement status by district.



"There are certain benchmarks…If a school is in serious trouble, they could have a math coach, extra support for interventions, etc. All cuts or redirections have been in total alignment of what [the district's academic] initiative stands for." – Cushing superintendent

the achievement gap between English learners and its more affluent, white student population.

The recently hired superintendent of Duvall emphasized how he was brought in two years ago to "get the district out of PI status." This leader described his approach as implementing a district-wide approach that uses academic conferencing and walkthroughs, pacing guides, and benchmark testing to help teachers understand the need for reform and how best to teach students. He centralized several funds that had previously been under site control in order to fund district-wide strategies aimed at improving the academic performance of the district's English students. This included creating a central office position focused on academic support for English learners specifically. He used the flexibility of Tier 3 along with other categorical aid to create a teacher-coaching effort aimed at lifting students' basic reading and literacy skills. Some Tier 3 dollars were swept and then blended with Economic Impact Aid to support this new instructional initiative. The board member we spoke with enthusiastically described the superintendent as a "leader who understands accountability," and credited the superintendent for creating change even within his short tenure.

The comparatively low performance of student subgroups (in some cases mirroring the social-class stratification of families within the district) at times affected budget decisions. In Brandeis, for example, achievement remained low for Latino children, who generally resided in poorer areas of the district. As a result, the superintendent protected categorical aid that had long benefited these students, and reached agreement with the union to not lay off teachers with bilingual skills. Tier 3 dollars were not directly used for this population, but newfound flexibility was reportedly a part of the budget discussion around how to best serve low-performing students.

Prior concern with and focus on improving teaching and learning. Despite the stiff fiscal challenges facing all 10 districts, a few detailed specific efforts to lift instructional quality and attend to low-performing students. The third pattern emphasized by Duvall and Cushing focused on the improvement of teaching, utilizing student data more rigorously, or attending to specific subgroups of pupils, as detailed in Section 4. Yet the likelihood of this response appeared to be conditioned in Cushing by the district's strategic plan and core academic initiatives, along with a long history of focusing on classroom improvements, mobilizing student data, and engaging in steady teacher-development activities. In Duvall, the prior condition was a newly elected school board that was very concerned about the district's recent move into Program Improvement (PI) status under federal rules. Both districts were inventive in gathering Tier 3 or other categorical aid to sustain instructional reforms, but Tier 3 flexibility alone did not cause this focus on teaching and learning. We also heard consistent reports from different groups of stakeholders in the two districts about core local priorities and needs.

In Duvall, responses to Tier 3 flexibility were explicitly tied to reform efforts led by a new leader charged by the board with accomplishing objectives like getting the district out of PI status. A board member told us, "We have a new leader who understands accountability. He's done more in 10 months than the old administration did in three years." The superintendent and senior cabinet members were already engaged in shifting discretionary funds toward specific instructional strategies at the time of our visits. This included

"Local parents and teachers had always thought reforms were burden, saw things as [the superintendent's] mandates when they're actually regulations in law. The superintendent wasn't making things up. He was preparing district for year 3 of PI." – Duvall board member

district-wide staff professional development aimed at improving instruction for English learner students, hiring site coaches, and implementing benchmark testing and interventions aimed at supporting lower achieving students. In this context of strong guiding principles governing decision-making, the Tier 3 flexibility helped facilitate further investment in priority activities, even in the context of overall budget cuts.

In Cushing, budget decisions were explicitly guided by the board-approved strategic plan, which in part emphasized lifting student performance. Their district officials hammered on the district's "academic success" initiative as driving decision-making, and for some time the district had funneled extra resources to schools that were struggling to achieve the objectives outlined in the initiative. We heard that budget decisions overall were informed by the strategic plan and academic initiative documents, with Tier 3 decisions made by considering each program against the academic initiative's guidelines. District leaders would then go back to Tier 3 program managers and ask them to adjust their offerings to align more tightly with the initiative. As one respondent explained, Tier 3 sweeps were used to "shift what we don't need." One stakeholder in Cushing even commented that decisions were made easier by the fact that the superintendent's own performance would be judged by the school board by the degree of progress made in lifting student test scores. In this way, the Tier 3 flexibility helped leaders focus more clearly on priorities even as the district wrestled with budget reductions.

The superintendent in Johnson complained that progress in lifting test scores had stalled in recent years. The district's school-based budgeting had proven quite popular among principals and site councils, but this meant it was unclear from the district's perspective which school-level initiatives were paying off. In this case, the superintendent was struggling simply to balance the general fund and meet the district's payroll. Once fiscal conditions stabilized, one next step was to identify what teaching improvement efforts were yielding results and then to spread these strategies. This district's capacity to move in this direction was reportedly fueled in part by more flexible categorical aid dollars, including Tier 3 monies.

Accountability pressures remained in place, as district leaders struggled to balance their general fund and perhaps reallocate Tier 3 and collateral categorical aid. In the remaining seven districts, however, our interviews rarely turned to efforts aimed at lifting the instructional program. In the face of sharp cuts and teacher layoffs, the majority of districts were simply trying to constrain the rise in class size and conserve their instructional staff. We did hear concern within districts that had been in PI status for multiple years. This often triggered support from the county education office or work with a school reform organization. But in the wake of ongoing budget cuts, attention to accountability requirements appeared to wane at least in the medium-term.

We consistently heard from district leaders about their struggle to juggle several priorities (e.g., keeping cuts away from the classroom, minimizing layoffs, and keeping the district fiscally solvent) across the case districts. Yet the different stakeholders with whom we spoke did not consistently describe a focus on particular instructional reform efforts. When district leaders talked about keeping cuts away from the classroom, this appeared to mean keeping class size low in some settings, and retaining sufficient materials in others. In these districts, Tier 3 discretion, Title I stimulus dollars and other categorical aid were rarely harnessed to lift the instructional program in a determined way.

Comparative fiscal health of districts. As noted, we stratified on the relative fiscal health of districts in selecting our sample of ten local settings. All 10 districts, however, were affected by cuts in state allocations; the majority were reducing cash reserves to help balance their budgets and minimize teacher layoffs. This set the tenor of budget discussions in all 10 districts. Strains on fiscal health constrained how each district could utilize Tier 3 flexibility. Many district leaders and other stakeholders described fiscal flexibility as one device used to simply help survive the fiscal crisis.

One administrator in Brandeis compared Tier 3 flexibility to being "on the Titanic, unbolting the deck chairs, and saying, 'Good, you can move the chairs around now.'" Others characterized the flexibility as a shell game, in which districts benefited from newfound flexibility over categorical aid, but this reflected mere accounting changes, not a long-term shift in state regulatory policy. A Rutledge administrator remarked, "Somehow you have to backfill decreases in revenue."

In this light—implementing Tier 3 flexibility in the context of a deteriorating budget—fiscal conditions and fiscal health made a sizeable difference. All districts were forced by revenue constraints to sweep a significant portion of Tier 3 dollars to help balance the general fund and to minimize teacher layoffs. A few districts also swapped-out categorical aid previously allocated by school principals and site councils with temporary Title I stimulus dollars. These decisions were driven by fiscal expediency: discretionary dollars were needed to balance the budget and protect teaching jobs.

Yet the *relative* fiscal health of a given district—even though we hypothesized it would matter—proved not to be associated with the response exhibited, among the four discernible patterns related to the treatment of Tier 3 programs. When we mapped which districts emphasized one of the four types of response to Tier 3 flexibility, we found no association with a district's fiscal health within our two strata used to sample districts, nor with the comparative fiscal health of the 10 districts.

Beyond the material reality of cuts and the need to sweep Tier 3 revenues into the general fund, institutional perceptions and rules constrained decision-making at times. For instance, some county education offices urged districts to keep track of Tier 3 funds, even if the districts "swept" them. This recommendation discouraged some districts from actively pursuing new spending choices. The view of the flexibility as a short-term fix meant that some leaders believed it was wiser to continue operating the Tier 3 programs they could still afford within state rules and regulations. Tier 3 flexibility not withstanding, respondents in many of the study districts believed that the program regulations would return as fiscal circumstances improved or if SBX3-4 sunsets (as planned) in 2013. Thus, actively reconfiguring spending was not to their advantage over the long-term. As one chief business officer in Brandeis told us, "They're going to go back to the old method anyway."

Administrative size of the district. The study districts differed greatly in size, both in terms of enrollment and the count of administrative staff, as detailed in Section 3. The size of a district's bureaucratic organization – especially the range of fiscal and program staff involved in decision-making—falso appeared to shape which of the four responses to Tier 3 flexibility districts adopted. Districts with a larger administrative apparatus were more likely to shift Tier 3 programs into their general fund and align funding with local priorities in ways that moved away from Tier 3 rules and program structures. Larger districts, such as Duvall and Johnson, for example, reported that their numerous schools historically had significant unexpended balances in categorical aid. This invited swift district-level action to sweep up these balances to backfill general-fund shortfalls or district-level program priorities.

We also observed that Marshall, the smallest study district in terms of enrollment and administrative staff, looked across Tier 3 programs and adjusted funding based on local priorities, rather than simply having to spend dollars on categories set in Sacramento. This district folded about 30 categorical programs into their general fund, and then used those flexible dollars to spend on areas of need. The superintendent explained that the Tier 3 flexibility allowed them to make key changes to their educational program, such as focusing on the needs of their English-learner students. The board member we spoke with characterized this as an opportunity to "better meet the needs of students" by tailoring services to the diverse needs of its schools. The district simultaneously made changes in the use of other funding streams, moving some sports and arts programs that were previously during the day to after school, in order to save on transportation costs. Consolidating Tier 3 funds was one of several ways the district attempted to continue to offer services while cutting spending.

Some districts were able to maintain a focus on the instructional core, rather than being pulled by organized stakeholders, including larger counts of principals, which characterized districts with greater enrollment. O'Connor's superintendent, for example, characterized the flexibility as offering a trade-off, allowing them to sweep "many programs so that we could keep others alive." Teachers in that district argued to the board that they wanted to see a full, standards-based language adoption, but a district administrator characterized the tenor of the teachers' feedback as, "We'd like to move on, but we also understand that if you're going to save a teacher, do that first."

Not surprisingly, Johnson, the district most invested in school-based budgeting, encountered greater resistance when trying to move principals and site councils toward adjusted district priorities. Title I stimulus dollars were passed down to school-level leaders under the decentralization scheme. Yet the superintendent worried out loud about how to define stronger district leadership on instructional efforts that displayed real effectiveness, and then harness Tier 3 or other discretionary dollars to district-inspired efforts.

Leadership stability and retaining flexibility within the district office. When superintendents articulated clear priorities, it made a significant difference in the extent to which Tier 3 or allied categorical aid was targeted in specific ways. On balance, the majority of superintendents and top district staff were focused on closing budget gaps, minimizing teacher layoffs, and responding to the most salient constituency groups. This worked against setting clear priorities among Tier 3 programs or focusing on instructional improvement.

At times, a long-standing superintendent expressed consistent priorities, and this helped to focus budget decisions. In Duvall, a new superintendent had been hired by a largely new school board, which was determined to lift flagging test scores. So, whether leadership had been stable or changing was not a key factor. It was the character and focus of district leadership that led to priority setting among Tier 3 programs and the more careful targeting of categorical aid in general to explicit district priorities.

District leaders who were stable or deliberative—often intertwined attributes—contributed to a clearer articulation of spending priorities across the 10 districts. Five districts with recently hired superintendents, described at times as "outside reformers," reported clear agendas relating to governance or budget priorities. This included an emphasis on adjusting how site-based management was operating in Brandeis and Johnson, district-wide professional development for teachers in Duvall, centralizing decision-making around curricular standards and teaching practices in Marshall, and recruiting a new leadership team charged with clarifying district priorities in Rutledge. On the other hand, the superintendent of one of the two districts where budget decisions were guided by instructional improvement priorities was a long-standing veteran. So, again, the newness of district leadership may be less important than a superintendent who pushes senior staff to help clarify and pare-down affordable budget priorities.

The leadership factor also arose with regard to the capacity of principals and site councils to set clear priorities or even spend annual allocations of categorical aid. This held implications both for whether funds previously managed by principals were swept by district leaders, whether discretion over Tier 3 programs was passed down to principals, and how Title I stimulus dollars were allocated. Some officials felt that the principals were not yet equipped to make optimal spending choices, at least not when set against district priorities.

In turn, we observed that district leaders retained exclusive control over Tier 3 funds in at least seven of the 10 districts, rather than sharing this authority with principals. Given the fiscal stringency that the majority of districts had to pursue, their tendency was to reduce school-level discretion and even to sweep-up unexpended balances of categorical aid (whether from Tier 3 or other accounts). This was purposeful with regard to lifting the instructional program. It also expressed part of a larger change strategy, such as adjusting school-based budgeting or retaining teachers of English-learners in order to lift the performance of those students.

District control of Tier 3 allocations at times was motivated by skepticism over whether school leaders could agree on clear priorities or program strategies. One Sanford administrator explained that the district chose to absorb Tier 3 because otherwise, "it would be all over the map." School-level leaders (principals and a site council member) in that district reported finding out about cuts in their categorical aid budgets in a routine meeting with district administrators. One principal described learning about the Tier 3 flexibility in this way: "They met with us and let us know, 'These are the budgets you have. These are the budgets that are now being swept.'" This contrasts with what we heard in Marshall, where district leaders were actively training principals about preferred or "wise" spending options, guided by new district-level approval procedures.

The reduction of school-level control over spending (and staffing decisions) at times was seen as a rational option for advancing the efficient allocation of shrinking resources. In Duvall and Marshall, the superintendents and cabinet members talked about using Tier 3 as a way to centralize spending choices at the district level. This was motivated by the perception that site leaders required additional training to make spending decisions that were aligned with district priorities. For example, one district administrator in Marshall explained that many of the principals were not happy with it because they were used to having access to significant discretionary funds: "Now it's being consolidated with the idea that they can tap into more money if they demonstrate they have a correct way of going about it." The superintendent of Johnson suggested that the link between site spending and the pursuit of district priorities represented a major aim of his restructuring agenda over the next few years.

Leadership in just two districts, Cushing and Brandeis, explicitly advocated using the Tier 3 flexibility to enhance site leaders' control over spending. Even so, in Cushing, site discretion was tied to school performance. Underperforming schools were required to invest in K-3 class-size reduction, and in practice, administrators reported that few principals chose to invest in other kinds of instructional resources even when given the flexibility. In Brandeis, in spite of the superintendent's philosophy and work to decentralize decisions over resources in the prior school-year, site leaders' control was curtailed because of the budget deficit facing the district. The cabinet discovered they were unable to continue passing through discretionary funding that they had just begun to give site leaders control over. Following Tier 3 sweeps, the high school's only discretionary money came through the district's Economic Impact Aid grant.

Concurrent Factors – Post-Tier 3 – Shaping District Budget Decisions

In addition to prior conditions, district leaders and other stakeholders reported several factors that arose after the February 2009 enactment of the Tier 3 reform—motivating or constraining budget decisions. As noted, these factors overlap with some of the prior conditions we just described. Certainly, prior conditions persisted through the period of study covered in the present report, but it remains useful to distinguish between the two sets of factors. The following sets of concurrent factors were frequently observed in the majority of the 10 study districts:

Mid-year cuts and urgency. As described in Section 1, our interviews with Sacramento policymakers and association leaders revealed that multiple aims were being pursued when the Tier 3 reform took shape in early 2009. This new flexibility came about mid-year as the state struggled to balance its own budget, intensifying cuts in most categorical aid of about 20 percent and giving districts flexibility to lay off staffers attached to these pared-back programs.

District leaders had to move fast to ensure that their spending plans were in line with shrinking resources from Sacramento and to announce any necessary layoffs in the spring, as required by law. We heard from district staff that time pressure and the mix of programs thrown into the Tier 3 designation meant that systematic planning and use of data to assess the comparative effectiveness of programs would be unlikely.

As reported in Section 4, district leaders and local stakeholders also reported differing interpretations of how Tier 3 dollars could be used and the extent to which certain programs should be preserved or recast. District staff also talked much about having little time to weigh budget priorities, consult with board members, and make decisions without opening up too much civic debate – given the shortness of time and the significance of the cuts overall.

Even when district staff aimed to engage various stakeholders – local union leaders, parent groups, and community leaders – they told us that Tier 3 deliberations were largely formulated by the superintendent, chief budget officer, and senior staffers, as described in Section 5. The timing of the Tier 3 flexibility, coming down four weeks before districts had to submit their March budget reports to county education offices, meant that choices had to be made quickly.

Marshall's superintendent talked about moving quickly with Tier 3 sweeps in order to minimize advocacy and pushback to protect "pet programs." The time crunch also allowed district leaders to constrain wider civic discussion, at times deeming the cuts or reallocations as painful but necessary. In Brandeis, the superintendent explained that this was because the kinds of decisions Tier 3 involved were "intuitive" and "mechanical." In Johnson, this top-down approach to Tier 3 implementation was characterized as an effort to

"I think what limits a district's flexibility in terms of that money is what they've tied to that money in the past. It's only going to be as flexible as the personnel you have tied to it." – O'Connor administrator

make the hard decisions in cabinet, rather than pushing them down to managers.

Legal mandates and persisting student needs. Many district leaders felt that Tier 3 programs were often tied to policy mandates or pressing student needs that did not go away with fiscal flexibility. These mandates represent prior institutional conditions, yet their relevance became more salient as cuts to some Tier 3 programs were being considered. As one administrator in Johnson explained, "If [there are] certain things we have to do, we still have to do them. It can be with any of these dollars, as long as we continue to do it. It's not specific to a particular resource." Brandeis administrators estimated that about 50 percent of their programs could not be swept because they remained responsible for achieving program objectives. For instance, the county education office still pressed the district to serve students at risk of not passing the high school exit exam, strictly enforced under the *Valenzuela* court order. So, while money earmarked for such students and test-preparation services could now disappear under Tier 3 flexibility, cutting the program could create legal problems for the district and students would be ill served.

We heard similar concerns over how districts could sustain efforts to induct and mentor new teachers. These funds also became deregulated under Tier 3, but state licensing requires that some form of mentoring be in place. Some district administrators, eager to lift the quality of teaching and test scores, reported a strong belief that mentoring was an effective strategy. Sanford's superintendent explained that they took minimal funding from this source, commenting, "We're heavily into the BSTA program." Brandeis chose to maintain its program so it could meet state requirements, but eliminated the coordinator position and planned to have other district administrators pick up these responsibilities.

The Rutledge district eliminated its GATE program, allowable under the Tier 3 flexibility. But this proved to be somewhat controversial within the district. One administrator said, "I don't think it's what's best for kids. GATE kids don't go away because there's flexibility. They're still here and they still need to be challenged." Similarly, a Marshall district administrator stated, "In my eyes the flex[ibility] is you can move the money wherever you like, but you're still accountable for those programs in some way or another. For example, with GATE, we still want to provide for those students, but there might not be a set dollar amount for that area." Another administrator in that district emphasized that the programs will stay the same, but just funded using general, unrestricted dollars following their Tier 3 sweeps.

Others perceived a host of mandates as well as reporting requirements attached to these funds. As one administrator in Holmes explained, "With each of those dollars in the past come certain mandates from the state that we needed to fulfill. So the question comes up in our minds, 'okay we've [been] given this flexibility to sweep this money, but do we still have to conform to the requirements of that funding?'" In this district, administrators perceived a need to perform mandated counseling for high school students (related to the Supplemental Counseling program), complete comprehensive school library reports, and record attendance for adult education summer school.

In this way, even where programs were not officially maintained in terms of accounts, many districts in our sample continued to offer activities and services that addressed what they perceived as governing educational mandates.

Labor contracts and obligations. Given that Tier 3 dollars often are tied to provisions of district labor contracts, some programs reportedly continued, not because of their documented effectiveness, but simply because of the difficulty of re-negotiating such provisions. In Brandeis, the Teacher Professional Development Block Grant was part of the existing teachers' contract. The School and Library Improvement grant also had long been used to support the district's K-3 class-size reduction program. As a result, sweeping these funds would have little impact on the amount of funding with which districts had to work because administrators had to find funding from some other source to continue these efforts. The superintendent commented, "There was no dialogue, because it's in the contract. It's a shell game. And whether you want to keep paying for it out of the grant fund, or out of the general fund, it doesn't really matter." In Johnson, the GATE program was identified as a "pass-through" in contract language, so according to district administrators they "had to maintain that particular stream or the equivalent amount of money."

Respondents in districts with smaller enrollments often perceived that fiscal flexibility was constrained by dollars being tied to staff positions. This often linked back to labor contracts. We heard that discontinuing Tier 3 programs would cause layoffs. For example, some districts used the School and Library Improvement Block Grant mostly to pay for teacher aides in elementary classrooms. Sweeping this program meant cutting those positions. Particularly in our smaller, rural districts, decision makers talked about the human costs to their budget-balancing strategies, worrying about how layoffs would affect the community at large—especially in settings where the district was a significant employer. In O'Connor, one district administrator explained, "A lot of the elementary schools depend on those aides, so we didn't look at, at least not yet…laying off the aides. We've maintained."

Still, districts large and small tended to focus on keeping classroom teachers, laying off other kinds of staff (such as counselors) instead. In Holmes, the school board president explained, "We know that having adults be in touch with kids in the school setting, teacher, principal, assistant principal, aid, librarian, or counselor is critical to their development…We are hurt by [the need to cut some of these positions]. But they are not in the classroom. That is where the instruction takes place. Curriculum and instruction is our call; that is our duty."

Stakeholders and community organizing. We heard surprisingly little about controversy and stakeholder debate over district budget decisions. This appeared to stem from two dynamics. First, districts had to make decisions quickly in the winter and spring of 2009, and downstream decisions in the 2009-10 school-year were less dramatic. Second, teacher union leaders focused little on Tier 3 decisions; instead, they directed more attention to minimizing teacher layoffs, maintaining smaller class sizes, and protecting benefits for members.

The degree of local opposition did not appear to differ significantly for districts that used structured – yet more open – processes for arriving at budget decisions, compared to a centralized process driven by the superintendent and cabinet. District respondents generally attributed the minimal feedback they received to having shared priorities with the community. Others said they were successful at clearly communicating the district's budget situation and options. A Rutledge administrator, for example, only recalled hearing some parents' concerns about cuts to the district's music program, a program that had not even been on the agenda for reductions. District leaders' efforts to gather staff and community input helped them decide class-size reduction was a high priority in Powell. The superintendent commented: "That seemed like it came up over and over and over again for us…As I talked to people in the district, what I kept hearing was that we would rather have furlough days than give up what instruction we have in the classroom: class size, materials, programs."

Districts that responded by reassessing spending priorities or advancing new initiatives identified programs that spoke to district or community priorities. In Marshall, which swept most of its Tier 3 programs, the fiscal manager noted that there had not been any public comment at the board meeting where the Tier 3 sweeps were approved. He said, "There was none, because we weren't cutting programs. We were saying we're going to move this money, but we're going to continue these programs. Why would anyone object to that?"

Some districts made cuts to programs that served specific populations, but for unknown reasons these constituents did not complain. Brandeis, for example, serves a fairly substantial number of English-learner students, and the community itself is bifurcated along ethnic and class lines. While the district negotiated with its union to avoid layoffs of bilingual-credentialed teachers, the cabinet also chose to cut the adult education program entirely. Staff worried that the elimination of English-as-a-second language in the adult education program would undercut the district's efforts to increase parent involvement. One district administrator commented about that cut, "It's a real crime, in my opinion, because we keep asking our parents to partner in their children's education. And if they're monolingual Spanish speaking, they're not able to do that." But neither the cabinet nor board member remembered hearing feedback about this particular sweep.

Some actors inside the district (such as adult education or GATE teachers, and program administrators) did contest decisions. Marshall's superintendent commented that Tier 3 decisions had been made behind the scenes and centralized in cabinet in order to minimize potential contestation. Most of the discussion and dialogue, however, came from program leaders, respondents said, rather than from interest groups outside the district or community members. No respondent reported hearing from an organized parent or advocacy group in Johnson, one of the largest study districts. Most pushback came from within, as cabinet members responsible for academic services tried to protect some programs that fiscal officers wanted to sweep into general funds to help reduce the deficit.

Similarly, in Sanford, the chief academic officer and her staff pressured the cabinet to maintain intervention programs and adult education, even after the district swept these programs into the general fund. While the specific examples of internal complaints we heard from respondents were few in number (possibly in part due to the centralized, cabinet-driven nature of decision-making in some districts), these incidents appear to have been somewhat successful at protecting some services related to program objectives. This may be because stakeholders had not yet realized the magnitude of cuts planned for the upcoming school-year.

Section 8
Conclusions and Policy Implications

State policymakers have long debated whether to target educational funding to specific groups of students and specific program reforms (categorical funding) or to allow local educators to decide how to allocate educational resources (unrestricted funding). In California, a substantial amount of state funding is awarded to local school districts in the form of categorical aid. In 2009, there were more than 60 distinct categorical programs.

In response to steep declines in state revenue, the legislature shifted ground in 2009 and delegated the authority to school districts to use funding from 40 of the categorical programs as unrestricted resources. Stakeholders we interviewed offered several explanations for this policy, which is referred to as Tier 3 flexibility. Their comments suggest that it reflected a political compromise in the face of budget shortfalls rather than a carefully considered decision to decentralize program control. Still, the implementation of Tier 3 flexibility provides an opportunity to track how districts respond when granted discretion over previously restricted funds. At the same time, the federal economic stimulus package brought new Title I dollars to California school districts—a second revenue source that could be allocated with some discretion by local school boards.

This study was designed to explore district responses to this new flexibility. Specifically, what districts did with the funds, how did they arrive at their decisions, and what the perceived consequences might have been. We also wanted to find out whether districts delegated flexibility to schools. Additionally, we tried to learn whether districts behaved in a similar manner with federal stimulus dollars. In all cases, we examined the consequences of flexibility on equity, such as whether local officials continued to allocate funds to support disadvantaged students, which is often one of the motivations for categorical programs.

While we cannot draw valid statewide inferences from our sample of 10 districts, we think similar responses are likely to be heard in many districts in the state. As a result, we think this report contains important information the governor and legislature can use as they consider and perhaps refine their approach to fiscal decentralization. A statewide survey of districts to be conducted in 2011 will produce more representative findings. The reader should also be cautious about drawing general conclusion regarding the deregulation of educational program funding beyond the specific elements of Tier 3 flexibility and the particular context of budget reductions we studied. The findings do not speak to how deregulation might play out under other circumstances.

District Responses to Fiscal Decentralization

Tier 3 flexibility was not a well-articulated policy. Administrators in the 10 districts had different interpretations of regulations governing the use and reporting of Tier 3 funds as well as the legislature's intent with respect to Tier 3 flexibility. Some superintendents and fiscal officers thought that districts had complete flexibility to use the funds for any purpose; others thought the goals of each categorical program still had to be supported and the students still had to be served, although the money could be used flexibly. Similarly, some administrators believed they only needed to keep records on expenditures in the aggregate, while others believed they still had to report at the program level. These differences in opinion occurred, in part, because the communication from CDE was perceived to be inadequate. In fact, most administrators said they obtained their information about Tier 3 flexibility from other sources, most notably School Services of California, county offices of education, and the Association of California School Administrators.

Top district officials also expressed confusion over the state's policy objectives. Few believed that the governor and legislature had thought carefully about which programs to include in the Tier 3 category. Nor did policymakers clearly articulate the goals of Tier 3 deregulation, in part due to the rushed timeline for this mid-year policy shift. In interviews with us, legislative staff, heads of education organizations, and other stakeholders in Sacramento offered three or four different rationales for the action.

Conditions surrounding Tier 3 flexibility led districts to be cautious about use of the funds. Districts felt some uncertainty about their options because the legislation granting flexibility expires in 2013, unless the legislature takes action to extend it. This sunset provision means that changes districts made in 2009 may have to be reversed in the future, and some of our respondents indicated that this uncertainty made them cautious about making major changes. Additional uncertainty came from the fact that the legislature cut the Tier 3 allocation by 20 percent at the same time they granted districts flexibility. Some administrators perceived a mixed message in these actions: they were granted increased discretion over a reduced amount of funding. The lack of clarity on all these issues may have made some administrators too cautious about using the new flexibility to make dramatic changes in programs.

Caution may also reflect the larger financial context in which districts found themselves. The general atmosphere was one of crisis and retrenchment, and administrators were focused on trying to preserve programs, rather than having time to carefully reconsider existing programs. These conditions may also explain decision-making that appeared to reflect short-term, "ad hoc" choices more than long-term, strategic planning. In a few cases, district actions seemed to be guided by well-established local priorities, but in most cases there did not seem to be an established plan for dealing with fiscal constraints that are becoming the norm for California school districts.

The relatively short period for action and the technical nature of Tier 3 flexibility enhanced the role of superintendents and their top staff in decision-making. Advocates of fiscal decentralization often argue that it will spur greater deliberation by local stakeholders. However, Tier 3 flexibility was announced in February 2009 when planning for 2009-10 budgets was already underway. Thus, districts had limited time to decide how to utilize their new freedom. In most of the 10 districts we visited, the central office swept the Tier 3 funds into a pool, and the decisions about their use were made centrally. Because of the need to act quickly, superintendents played the central role in decision-making. Similarly, complying with the guidelines required understanding of the budgeting and reporting system, so the chief financial administrator was a also key player.

Administrators remain committed to the policy goals that motivated many of the categorical programs in Tier 3. Policymakers expressed a concern that statewide priorities would be abandoned if funding was no longer attached to them. For example, programs designed to foster equity could be curtailed. While we did not ask about the goals associated with all 40 programs folded into Tier 3, district leaders did speak of their continued commitment to the four major programs we inquired about: Gifted and Talented Education, class-size reduction, the Targeted Instructional Improvement Grant, and adult education. Their support may continue for a variety of reasons, including the fact that some policy goals are enforced through court rulings, the superintendents hold these priorities as their own, and their local constituencies support these goals.

Policy Implications: Improving Tier 3 Flexibility

Despite our cautions about over-interpreting the findings of this study, we think the information gathered from these 10 districts and dozen policymakers suggest some preliminary lessons for the next governor and legislature to consider with respect to Tier 3 flexibility.

Be clearer about the rules governing flexibility. If 10 superintendents and chief financial officers did not fully understand the rules governing this program, it is fair to assume the policy was not clearly communicated. This lack of clarity should be addressed as soon as possible.

Take greater advantage of the intermediary organizations that can help disseminate information. Respondents reported relying on various intermediary organizations for information, including county offices of education, the Association of California School Administrators, and School Services of California. The state department of education could take advantage of these existing communication channels to disseminate policies in the future. This might include focused dissemination to these organizations as well as resources to enable them to serve school districts better.

Make legislative purposes clearer. It would be helpful if policymakers were more explicit about the reasons undergirding their actions and their expectations for implementation. We recognize that enacted policies often reflect compromises and thus do not embody a unified approach or philosophy. Nevertheless, expressing the spirit of the decision can only help in its implementation.

Recognize the limits (and problems) of temporary policy changes. The sunset provisions associated with Tier 3 flexibility influenced how some districts responded to the policy. In particular, some hesitated to consider larger changes because the policy was temporary. This uncertainty represented an additional burden to districts and a hindrance to thoughtful implementation.

Endnotes

[1] Tier 3 funds received a 15.4% mid-year reduction during 2008-09, and a 20.1% reduction (an additional 4.7% reduction) for the following four years (CCSESA, 2009).

[2] March 15th is the statutory deadline for districts to issue potential layoff notices to teachers, as well as submit their second interim financial reports. Districts' second interim financial reports include current year budget and multi-year financial projections, and incorporate any proposed mid-year budget cuts (as in 2009).

[3] There seems to be no general agreement about the exact number of state categorical education programs. The number has ranged from 60 to 124, depending on who is counting and what is counted as a categorical program. It also depends on the particular year in which the programs are counted, as new categorical programs have been added and occasionally consolidated over time. The Legislative Analyst's Office and the California Department of Education use different numbers, and even within CDE there is a difference between the number of categorical programs identified in the SACS and in the state education budget. For the purpose of this paper we identify 40 Tier 3 categorical programs, which are listed in Appendix A.

[4] This experimental work is being conducted by the American Institute for Research and Pivot Learning Partners.

[5] The School Improvement Program (SIP) was folded into the School Library Improvement Block Grant in 2005-06.

[6] Assembly Bill (AB) 825, Chapter 871, Statutes of 2004 established the TCBG. The TCBG includes funding for the BTSA program. Contrary to most of the other programs included in block grants established by AB 825, the Education Code sections guiding the BTSA program were not repealed. The BTSA program is co-administered by the CDE and the CTC. BTSA programs vary in organizational design and include individual districts; districts in collaboration with one another and with colleges and universities; and large consortia in which districts, colleges, universities, and county offices of education work together.

[7] ABX4-2 (Chapter 2 of the 2009–10 Fourth Extraordinary Session) directed districts to consult with the public regarding the use of the funds, "The governing board of the school district or board of the county office of education, as appropriate, at a regularly scheduled open public hearing shall take testimony from the public, discuss, approve or disapprove the proposed use of funding, and make explicit for each of the budget items…the purposes for which the funds will be used."

[8] Initially founded in 1975 by an official in the California Department of Finance, School Services of California (SSCA) is a for-profit fiscal-policy consulting firm that today works directly or indirectly with districts across the state. Most of SSCA's over 30 staff members have worked as school finance officials in California or in state government.

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Appendix A:

Tier 3 Categorical Programs Combined into new "Flex Item" (2009-2010)

	(In Millions)
Targeted Instructional Improvement Block Grant	$855
Adult education	635
Regional Occupational Centers and Programs	385
School and Library Improvement Block Grant	370
Supplemental instruction	336
Instructional Materials Block Grant	334
Deferred maintenance	251
Professional Development Block Grant	218
Grade 7-12 counseling	167
Charter Schools Categorical Block Grant	136
Teacher Credentialing Block Grant	90
Arts and Music Block Grant	88
School Safety Block Grant	80
Ninth-Grade Class Size Reduction	79
Pupil Retention Block Grant	77
California High School Exit Exam supplemental instruction	58
California School Age Families Education	46
Professional Development Institutes for Math and English	45
Gifted and Talented Education	44
Community Day Schools	42
Community Based English Tutoring	40
Physical Education Block Grant	34
Alternative Credentialing/Internship programs	26
Peer Assistance and Review	24
School Safety Competitive Grants	14
California Technology Assistance Projects	14
Certificated Staff Mentoring	9
County offices of education Williams audits	8
Specialized Secondary Programs	5
Principal Training	4
American Indian Education Centers	4
Oral health assessments	4
Advanced Placement fee waivers	2
National Board certification incentive grants	2
Bilingual teacher training assistance program	2
American Indian Early Education Program	1
Reader services for blind teachers	—a
Center for Civic Education	—a
Teacher dismissal apportionments	—a
California Association of Student Councils	—a
Total	**$4,529**

a - Statewide, less than $500,000 is spent on each of these programs.

Source: Legislative Analyst's Office (2010). Year-one survey: Update on school district finance and flexibility. Sacramento, CA.

**Appendix B:
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